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B.B.A.

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ELEMENTS OF MARKETING

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SYLLABI-BOOK MAPPING TABLE

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UNIT 2:	Marketing concepts -traditional and modern; Selling vs. marketing; Marketing mix; Marketing environment.	**Unit 2:** Concepts of Marketing **(Pages 14-42);**
UNIT 3:	Consumer Behaviour: Nature, scope and significance of consumer behaviour. Factors influencing consumer behaviour	**Unit 3:** Consumer Behaviour **(Pages 43-00);**
UNIT 4:	Market segmentation -concept and importance; Bases for market segmentation- Market Segmentation Strategies - Marketing mix	**Unit 4:** Market Segmentation **(Pages 57-69)**
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INTRODUCTION

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The function of marketing assumes such an importance in the course of running a business that Peter Drucker, the world-renowned management guru, has accorded it the highest place among all management activities. Marketing management is a branch of management that focuses on the practical application of marketing techniques and the management of a company's marketing resources and activities. The growth of a business depends upon how well its products are marketed. Unless a business adapts to the changing external environment and creates innovative methods to counter and outperform its competitors, it will lose the market to its rivals. Therefore, marketers are constantly committed to creating a new customer base and retaining the existing customers as businesses cannot run without the patronage of customers. Customers are retained by ensuring that they get – value for money, quality and timely services and a constant supply of future products.

In addition, the marketing personnel are in constant touch with the dealers, distributors and other intermediaries as well as with the end-user, that is the customer; and therefore, they are the face of the company in the market. They also provide the company with useful inputs regarding the acceptance or rejection of its product and the reasons for the same. In this sense, the marketing department functions as the eyes and ears of the company.

This book, *Elements of Marketing*, is divided into 14 units. It has been designed keeping in mind the self-instruction mode (SIM) format and follows a simple pattern, wherein each unit of the book begins with the Introduction followed by the Objectives for the topic. The content is then presented in a simple and easy-to-understand manner, and is interspersed with Check Your Progress questions to reinforce the student's understanding of the topic. A list of Self Assessment Questions and Exercises is also provided at the end of each unit. The Summary and Key Words further act as useful tools for students and are meant for effective recapitulation of the text.

BLOCK - I
BASICS OF MANAGEMENT

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UNIT 1 INTRODUCTION TO MARKETING

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1.0 INTRODUCTION

The soul of marketing is in knowing ones customers' needs and coming up with a strategy that revolves around those needs. Marketing is an indispensable constituent for every business to succeed in every known industry by focusing on organic development. Marketing is the process of understanding consumer needs and serving to fulfil them. Providing good service is as important as supplying a good product. Effective marketing not only assures a demand for the product but also fulfils the consumer's needs. The ideal mix of supplying the desired product at a competitive price, promoting the product and making it easily accessible is what creates the right mix.

Market-driven companies display concern for the customer in all their actions. All departments recognize the importance of the customer for the success of the business. Market-driven businesses know how their products are evaluated by customers against competition. Such companies invest in understanding their customers. They invest in building brands based on their understanding of the customers. In this unit, you shall learn the concepts, nature and scope of marketing. You will also study the changing concepts of marketing, with a focus on the role of marketing in a developing economy.

1.1 OBJECTIVES

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After going through this unit, you will be able to:

- Discuss the meaning and definition of marketing
- Understand the nature and scope of marketing
- Learn the importance of marketing as a business function
- Explain the role of marketing in a developing economy

1.2 INTRODUCTION TO MARKETING: DEFINITION AND TYPES

Marketing comes in a wide variety of flavours based on audience, media platform and business in today's evolving and dynamic marketplace. Therefore, it is no surprise that marketers define what they do differently. Below are some of the definitions of marketing by various people of authority.

According to the American Marketing Association (AMA) Board of Directors, marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.

Philip Kotler defines marketing as 'the science and art of exploring, creating, and delivering value to satisfy the needs of a target market at a profit. Marketing identifies unfulfilled needs and desires. It defines, measures and quantifies the size of the identified market and the profit potential. It pinpoints which segments the company is capable of serving best and it designs and promotes the appropriate products and services.' He further defines marketing as 'satisfying needs and wants through an exchange process'.

P. Tailor of www.learnmarketing.net suggests that 'marketing is not about providing products or services it is essentially about providing changing benefits to the changing needs and demands of the customer'.

If we look at Charted Institute of Marketing's definition in detail, marketing is a management responsibility and should not be left to a specific department or person. In fact, everyone who works for or represents a company is responsible for marketing, as their actions contribute towards the company's reputation.

'Marketing is the messages and/or actions that cause messages and/ or actions,' said Jay Baer, the president of Convince & Convert and author of *The Now Revolution.*

For Julie Barile, Vice President of eCommerce, Fairway Market,

'Marketing is traditionally the means by which an organization communicates to, connects with, and engages its target audience to convey the value of and ultimately sell its products and services. However, since the emergence of digital

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media, in particular social media and technology innovations, it has increasingly become more about companies building deeper, more meaningful and lasting relationships with the people that they want to buy their products and services. The ever-increasingly fragmented world of media complicates marketers' ability connect and, at the same time presents incredible opportunity to forge new territory.'

Marketing includes research, targeting, communications (advertising and direct mail) and often public relations. Marketing is to sales as plowing is to planting for a farmer—it prepares an audience to receive a direct sales pitch, says Mary Ellen Bianco, Director Marketing & Communications, Getzler Henrich & Associates LLC.

'Marketing is an ongoing communications exchange with customers in a way that educates, informs and builds a relationship over time. The over time part is important because only over time can trust be created. With trust, a community builds organically around products and services and those customers become as excited about the products as you are — they become advocates, loyal evangelists, repeat customers and often, friends. Marketing is a really great way to identify what grabs people and gets them excited about your brand and give it to them, involve them in the process, and the best part, build great friendships in the process,' says Renee Blodgett, Chief Executive Officer/Founder, Magic Sauce Media. For Toby Bloomberg, Bloomberg Marketing/Diva Marketing, 'the definition of marketing extends beyond just communicating product features. Marketers are responsible for a 360-degree experience. For example, in the social media world, a customer's Twitter needs may differ from her needs to "play with the brand" in terms of a social game promotion. Every customer touch point from customer service to sales to accounting and more are part of the "new marketing".'

According to Matt Blumberg, Chairman and Chief Executive Officer, Return Path, marketing, when done well, is (a) the strategy of the business. Its value proposition, go to market strategy, and brand positioning and image to the world. Marketing when not done well is (b) an endless checklist of advertising and promotional to-dos that can never be completed. Marketing in the 21st century must be (c) largely, but not entirely, measurable and accountable around driving business goals. Marketing when done brilliantly is driven by (a), includes a small, disciplined subset of (b), and is steeped in a culture of (c).

Marketing is the process by which a firm profitably translates customer needs into revenue, says Mark Burgess, Managing Partner, Blue Focus Marketing.

Intuitive by design, marketing matches the right message/cause to the right person. It is tasked with finding someone who has a personal connection with your product, service or cause in a way that is unobtrusive and inviting. Marketing can be as simple as networking at an event or as complex as a multi-million dollar global campaign that integrates print, digital, PR, social media and broadcast delivering a specific message with one unified goal. Some of the best marketing outcomes come from the simplest initiatives. Keeping it simple is sometimes the best strategy, says Lisa Buyer, President and Chief Executive Officer, The Buyer Group.

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Marketing is building your brand, convincing people that your brand (meaning your product/service/company) is the best and protecting the relationships you build with your customers, says Marjorie Clayman, Director of Client Development, Clayman Advertising, Inc.

Marketing is meeting the needs and wants of a consumer, says Andrew Cohen, President, The A Team.

In line with the firm's business goals, marketing attracts consumers' scarce resources, attention and disposable income to drive profitable revenues. Marketing is the process of getting a product or service from a company to its end customers from product development through to the final sale and post purchase support. To this end, marketing strategy consists of business goals, target customers, marketing strategies, marketing tactics and related metrics. As a function, marketing extends across the customer's entire purchase process including research, engagement, purchase, post-purchase (including supplemental support and returns) and advocacy, says Heidi Cohen, President, Riverside Marketing Strategies.

Marketing is creating irresistible experiences that connect with people personally and create the desire to share with others, says Saul Colt, Head of Magic, Fresh Books.

Marketing is how you tell your story to attract customers, partners, investors, employees and anyone else your company interacts with. It's the script that helps users decide if they'll welcome you into their lives as a staple, nice-to-have or necessary annoyance. It's the way that everyone interacts with your brand. It's impression, first, last and everything in between, says Jeff Cutler, Executive Vice President and General Manager, Vitals.com.

'Marketing is making connections between customers with your products, brand(s) and business, such that they are likely to buy from you. Or as Regis McKenna said, "Marketing is everything".' — Sam Decker, Co- founder and Chief Executive Officer, Mass Relevance.

'Marketing has little to do with the service provider and everything to do with the customer. Marketing educates and engages the customer, satisfying their needs while simultaneously positioning the service provider as a trusted advisor and source. Good marketing is a two way street. Great marketing understands what the customer wants and gives it to them,' says Shennandoah Diaz, President and Master of Mayhem, Brass Knuckles Media.

'Marketing is delighting a consumer, customer and/or user to achieve a profit or other pre-established goal,' according to Steve Dickstein, Chief Executive Officer, Hugo Naturals.

'Marketing is essentially involved in outward communication, in promoting the corporate goals of the company it is serving. It is the process through which companies accelerate returns by aligning all communication objectives (advertising, marketing, sales, etc), into one department to more efficiently achieve the overall corporate goals.' — Antoine Didienne.

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'Marketing is branding, naming, pricing, and the bridge between paid and earned media. It is not sales.' — Gini Dietrich, Chief Executive Officer, Arment Dietrich, Inc.

'Marketing today is finally customer-focused. Social media made that happen. Markets are once again conversations. Marketing is about knowing the market, creating the right product, creating desire for that product and letting the right people know you have it. The old adage that says, "If you build a better mousetrap people will beat a path to your door" doesn't hold true without marketing. You might indeed have a better mousetrap, but if people don't know you have it, and they don't know where your door is, there will be no path beating and no conversation going on.' — Sally Falkow, PRESSfeed.

'Marketing is helping people buy your product or service.' — Jason Falls, Social Media Explorer.

'Marketing is the business' play-maker. As with successful hockey franchises, the most valuable player is not always the player who scores the most goals but the player who creates the play that allows others to score (think Gretzky, Crosby or Orr). A great marketing team assesses the brand's playing field, quickly captures their competitor's position, strengths and weaknesses, maps it against their team's position, strengths and weaknesses and puts the puck on the stick of the salesperson with the greatest opportunity to score.'— Sam Fiorella, Web/Social Media Strategist, The Social Roadmap.

'Marketing is the act of developing an engaging relationship with every single human being that shows an interest in you.' — Paul Flanigan – Consultant, Experiate.net

'Marketing is inextricably linked to sales and unless it drives a trial or sale, the effort should not be labeled "marketing". The critical steps in marketing include defining what is currently known about a business (trends, regulations, target audience, competitors), who are the target users or buyers, what are the measurable business objectives in terms of where to take that business, what is the plan to get there and what are the measures of success of initiatives defined to reach those objectives. This marketing approach can be applied whether the objective is expanding a current business or entering new markets. Each step in the marketing process is meant to move the user or buyer closer to making a buy decision.' — Alexandra Tyler, Vice President of Branded and Social Media Marketing, Citi Global Transaction Services.

'Marketing builds relationships between consumers and brands. The many disciplines that go into the process, together create a brand personality designed to be compatible with the target. Marketing romances the consumer in the hopes of establishing a long term commitment. This takes persuasion and nothing moulds opinion like the third party endorsement power of PR. As Bill Gates says, "If I was down to my last dollar, I'd spend it on PR".' — Deborah Weinstein, President, Strategic Objectives.

Sales

In general, a transaction between two parties where the buyer receives goods (tangible or intangible), services and/or assets in exchange for money, is known as sales.

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Sales also involves what you do and say during that particular moment the product or service is being purchased. It is confirming the payment options. Sales people have to feed the marketing process and use the resources effectively that they had a part in building. There needs to be a partnership between the sales and marketing departments.

Countless sales transactions take place across the globe every day, creating a constant flow of value, which forms the backbone of our economies. Sales of investment vehicles in the financial markets represent highly refined value exchanges.

For example, when a typical middle-class person buys a house, a sale occurs. But in the same transactions, other sales take place. It is most likely that the house is bought on loan. The bank or financial institution would sell financing to the buyer. The official in the bank or the financial institution would earn by selling loans and other forms of debt financing.

1.3 NATURE AND SCOPE OF MARKETING

Marketing is the process of finding out customer needs and serving those needs profitably. If an organization is obsessed with looking for profits, it will never find them. However, if it is focused on satisfying its customers, profits will come automatically. Profit is an outcome of serving customer needs well.

Profit is a legitimate goal of a business organization. Reasonable profits are required to keep stakeholders interested in running the business, and to increase the capability of the organization to serve its customers better. In that sense, customers should allow companies to have reasonable profits, because lack of resources will impair the company's capabilities to serve customers in the future. However, a business with a single-minded focus on maximization of profits will not survive. In such companies, customer interests will not be accorded the top priority. Customer interests are likely to be compromised if they conflict with the profit maximization goal of the company. Customers stop patronizing such companies once they realize that their interests can be compromised in the organizational pursuit of profits.

The essence of marketing is to provide the desired value to customers. A company cannot possibly satisfy all the customers in a market because their needs vary. Most organizations do not have the capability to serve widely varying needs. An organization has to select customers whose needs can be matched with its capability to serve them. If it tries to serve all customers, it is sure to have some of them dissatisfied. However, if an organization has selected its customers carefully, it is possible to satisfy all of them completely.

Successful companies rely on their satisfied customers to return to repurchase and recommend the company's offerings to others. Therefore, the goal of marketing is attracting and retaining customers through a long-term satisfaction of their needs.

Companies understand that it is much more expensive to attract new customers than to retain existing ones. Marketing oriented companies build relationships with their existing customers by providing satisfaction. They attract new customers by building expectations and promising to provide value. New customers find the company's promise credible, as the company's existing and erstwhile customers vouch for it.

Marketing should be considered a central business function as it establishes, develops and commercializes long-term customer relationships so that objectives of both the parties are met. Customer needs are served and the company earns profits.

A company exists primarily to serve its customers. Therefore, customers are the most powerful stakeholders of any company. It is the job of the marketer to keep the company's people, processes and systems tuned to serving the most important stakeholder of the company. Customer interests must be paramount and should be protected in every decision that a company takes.

1.4 IMPORTANCE OF MARKETING AS A BUSINESS FUNCTION

Consumer is the pivot around which the whole economic world clusters. Today, a manufacturer does not pay as much attention to production as he pays to the consumer. This signifies a fundamental change in the economic philosophy. At the early stages of economic development, the needs of a person were limited and he was capable enough to satisfy his needs on his own. Now, circumstances have changed. It is the time of large-scale production with latest techniques which have resulted in the expansion of scope marked from a particular community to a state, from a state to the national level and from national level to the international level. Due to the increase in the scale of production and expansion of the market, the producer feels a need to take help from different intermediaries for distributing his goods and services to the actual consumers.

Along with it, product diversification and scattered location of consumers makes it compulsory for a manufacturer to adopt advertisement, sales promotion and salesmanship. As all these activities involve heavy expenditure, the cost of production is bound to increase significantly. The manufacturer wants to keep the selling price of his product comparable to that of his competitors so that he may maintain the demand for his product. Therefore, it becomes necessary to control the cost of production and the success of an enterprise in controlling the cost of production depends to a large extent upon successful operation of marketing activities and effective organization of this department. Marketing has acquired an important place in the economic development of the whole country. It has also become a necessity for attaining the objective of social welfare.

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The importance of marketing for any firm that wants to sell its products/ services cannot be overemphasized. Over the years, marketing has taken on many forms. A common misconception is that marketing means only to sell and promote products. In reality, these activities are part of marketing. These efforts are usually taken as only the result from a lot of marketing efforts, while it is only a vital part of this whole process.

Apart from promotional activities, marketing comprises strategic and tactical sets of functions covering planning, product development, packaging, pricing, distribution, customer service and evaluation.

Many organizations and businesses outsource the marketing functions to a marketing manager or a team within the organization. In this case, marketing is a separate entity. A marketing department comprises brand and product managers, marketing researchers, sales representatives, advertising and promotion managers, pricing specialists, and customer service personnel.

A marketer will also act as a co-coordinator between the customer and the organization, as a strategic partner, guide, deliverer, communicator, negotiator and customer voice. Marketing also assumes the following responsibilities:

(i) Analysing the economic and competitive concepts of a sector/industry
(ii) Identifying markets to be targeted
(iii) Identifying segments or areas within a target market
(iv) Identifying most suitable strategies
(v) Commissioning, understanding and acting upon market research
(vi) Understanding competitors, their strategies and likely responses
(vii) Developing new products

1.5 MARKETING IN A DEVELOPING ECONOMY

A marketer cannot take initiatives and initiate a modern marketing system in a developing country or economy. The efforts undertaken for marketing should coordinate with the situations and circumstances in the organizational environment. For example, there is a significant difference between a programme for a population with 95 per cent literacy and a sales promotion campaign for a population that is 50 per cent illiterate. Pricing in a market where goods produced are insufficient poses different problems from pricing in a surplus situation. Therefore, in a developing economy, an efficient marketing programme is needed as it provides for adequate utility, given a particular set of circumstances. In evaluating the potential in a developing country, the marketer must make a survey of the existing level of market development and acceptance within the country.

Emerging multinationals from developing countries face several difficulties. These companies must surmount their mindset before formulating appropriate

strategies. They must also seek the right partnerships or look for inorganic route to succeed.

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Companies from developing countries find it difficult to compete in international markets against established companies from the United States, Europe and Japan. The perceived quality of goods of the companies from developing countries is not good. Moreover, even when they are able to enter the markets of developed countries, they serve the less sophisticated and the less profitable segments of those markets. To compete in more sophisticated and profitable segments, they are required to have or develop advanced capabilities in research and development (R&D), distribution and marketing. However, what is most dismal is that the companies from developing countries continue to serve the less profitable segments even when the company's internal capabilities exceeds the demands of the segment it is serving. Arvind Mills, an Indian garment manufacturer, expanded abroad with commodity-like products even though it competed successfully in higher-value segments at home. Companies from developing countries lack the will and the confidence to commit resources to acquire capabilities to move up the value curve, i.e., the capability to compete in more sophisticated and profitable segments of markets of developed countries. They somehow feel that they can never be good enough to compete against multinational giants in their own backyards.

However, there are companies like Ranbaxy from India and Samsung from South Korea which have broken these shackles and are on the path to becoming true multinationals. Their forays into international markets have followed a pattern.

- **Breaking out of the marginal mindset:** Companies from developing countries realize that there is a big gap between technical requirements and design norms at home, and world-class standards abroad. They become resigned to their inability to bridge this gap. Moreover, when demand at home is strong, they can conveniently postpone the investments to comply with international standards under the pretext of being focused on serving the requirements of the home market. Some other companies have the required capabilities but are unaware of the company's global potential or do not trust their own abilities to compete globally. Successful companies have got out of this defeatist mindset in their own ways. Samsung's chairman had to take his managers to the USA to show them the scant regard with which their products were being treated in stores there. The shocked managers initiated a series of actions to change perceptions of overseas customers about their products.

  Some companies like Thermax, which manufactures small boilers, believed that their technologies and designs were world-class and designed for international markets even when those designs were not acceptable in their home markets. The emerging multinationals which took care to appoint powerful managers for their overseas operation, were able to build credible organizational structures outside their home markets. These powerful and committed overseas managers were able

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to convince managers at home to commit resources for the overseas operations. These powerful overseas organizations exert a strong pull from abroad. Ranbaxy's European operations hired a senior British executive from a leading pharmaceutical multinational to its European business though the size of Ranbaxy's European operations did not justify it. Managers at home cannot ignore such powerful personalities.

- **Devising strategies:** Emerging multinational companies often complain about their lack of international exposure. In today's global market, a company does not have to go abroad to experience international competition. International competition eventually comes to the company's home market. Emerging multinationals can learn to compete against companies in foreign markets simply by adapting and responding to those players when they enter their home markets. The Philippines-based fast-food chain Jollibee, used the entry of McDonald's to learn about the latter's sophisticated operating systems that allowed it to control its quality, costs and service at the store level. It also learned from McDonald's the mistake of not catering to local taste preferences. Jollibee improved its performance because it decided to take the fast-food chain giant head-on in its home market. The insights born out of having survived McDonald's entry in its home market taught Jollibee how it could move abroad. Companies seeking to venture in international markets should fight it out with multinational companies when the latter enters their home markets. The experience will count when they leave their shores to enter overseas markets.

  Another approach is to introduce a new business model that challenges the industry's rules of competition. The wine industry has very few truly global brands. The Europeans labelled wines by region, sub-region and even village. There was other categorization according to historical quality classification. The resulting complexity confused customers and fragmented producers. This strategy prevented them from building brands. The Australian wine company BRL Hardy started building its own brands in the overseas market and it also started sourcing wine from all-over the world to build the scale necessary for creating strong brands. The new approach has been successful.

- **Learning:** The emerging multinationals have to protect their home markets while they try to globalize their operations. The effort involved in acquiring new capabilities should not draw off too many vital resources and risk the domestic market. They have to strike a balance between protecting their existing capabilities and acquiring new ones. Before they think of building new capabilities, the emerging multinationals should fully exploit their existing resources and capabilities. The company should learn to build on existing expertise by breaking down the barriers between the international and the domestic organizations. Companies which have isolated their international operations from their domestic operations have lost on useful expertise and insights that the domestic business has

developed and which could have been useful in their international operations. Close co-operation between the parent company and its subsidiaries establishes a dynamic of mutual learning and both domestic and international operations improve.

However, very often, the expertise and insights of the domestic operations are not enough to succeed in international markets. Some companies enter into partnership with a foreign company to bridge the gap between what they know and what is required to know to succeed in the overseas market. Most of these partnerships fail because the interests and expectations of partners differ, and because one partner becomes dominant in the relationship. When such partnerships fail, the emerging multinational is at a serious disadvantage, because it lacks the capabilities that it was hoping its partner would provide. India's largest luggage company, VIP industries formed a marketing partnership with a local distributor when it entered the UK market. The distributor switched sides when Samsonite offered it exclusive rights to its Oyster II model. With no direct investment in its own local sales and marketing capabilities, VIP was helpless.

Sometimes, it is helpful to buy the necessary capabilities, but there are numerous problems of integrating the acquisition into the parent company. Companies have realized that in international business new capabilities cannot simply be installed. They must be developed and internalized.

Check Your Progress

1. State the definition of marketing.
2. What is the essence of marketing?
3. What should companies from developing countries do to compete in more sophisticated and profitable segments?
4. How can emerging multinationals protect their home markets while trying to globalize their operations?

1.6 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.
2. The essence of marketing is to provide the desired value to customers.
3. Marketing should be considered a central business function as it establishes, develops and commercializes long-term customer relationships so that objectives of both the parties are met. Customer needs are served and the company earns profits.

4. To compete in more sophisticated and profitable segments, companies from developing countries are required to have or develop advanced capabilities in research and development (R&D), distribution and marketing.

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1.7 SUMMARY

- Marketing is the process of finding out customer needs and serving those needs profitably. If an organization is obsessed with looking for profits, it will never find them. When a company is focused on satisfying its customers, profits will come automatically. Profit is an outcome of serving customer needs well.
- The essence of marketing is providing desired value to customers. A company cannot possibly satisfy all the customers in a market, because their needs vary. Most organizations do not have the capability to serve widely varying needs.
- Sales also involves what you do and say during that particular moment the product or service is being purchased. It is confirming the payment options. Sales people have to feed the marketing process and use the resources effectively that they had a part in building. There needs to be a partnership between the sales and marketing departments.
- Consumer is the pivot around which the whole economic world clusters. Today, a manufacturer does not pay as much attention to production as he pays to the consumer. This signifies a fundamental change in the economic philosophy.
- Marketing should be considered a central business function as it establishes, develops and commercializes long-term customer relationships so that objectives of both the parties are met, that is, customer needs are served and the company earns profits.
- A marketer cannot take initiatives and initiate a modern marketing system in a developing country or economy. The marketing efforts should coordinate with the situations and circumstances in the organizational environment.
- In a developing economy, an efficient marketing programme is needed. The marketer must make a survey of the existing level of market development and acceptance within the country.
- The emerging multinationals have to protect their home markets while they try to globalize their operations. The effort involved in acquiring new capabilities should not draw off too many vital resources and risk the domestic market. They have to strike a balance between protecting their existing capabilities and acquiring new ones.

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1.8 KEY WORDS

- **Marketing:** The action or business of promoting and selling products or services, including market research and advertising is called marketing.
- **Transactions:** An agreement between buyer and seller that confirms the intention to exchange goods and services is known as a transaction.
- **Stakeholder:** A stakeholder is a party that is involved in a company and can exert influence or be influenced by the business.

1.9 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Why is marketing important?
2. What are the responsibilities that a marketer assumes while selling or promoting a product?
3. Why should marketing be considered a central business function?

Long-Answer Questions

1. Discuss the meaning and definition of marketing.
2. Explain the nature and scope of marketing.
3. Explain the difficulties companies from developing countries experience when competing in international markets.

1.10 FURTHER READINGS

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UNIT 2 CONCEPTS OF MARKETING

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Structure

2.0 Introduction
2.1 Objectives
2.2 Marketing Concepts
2.3 Traditional Marketing vs Modern Marketing
  2.3.1 Marketing under the Money Economy
  2.3.2 Modern Complex Marketing System
2.4 Selling vs Marketing
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2.7 Answers to Check Your Progress Questions
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2.0 INTRODUCTION

This unit will introduce you to the concepts related to marketing and the environment in which it takes place. The process of marketing is all about understanding the needs of the customers and catering to them. You will get acquainted with exchange concept, production concept, selling concept, product concept and marketing concept. The role of marketing is to satisfy customers and orient an organization towards serving those needs. The difference between traditional marketing and modern marketing will be discussed in detail. Likewise, a combination of product, its price, the methods to promote it and the ways to make the product available to the customer gives an understanding of the various ways a customer's expectation are met.

Finally, this unit will discuss in detail the idea of marketing environment. A company's environment comprises of both micro and macro environments. The micro environment of the company consists of factors that are in the immediate vicinity of the company. On the other hand, the macro environment consists of forces that are beyond the control of the company. You will be able to recognize both these forces after going through this unit.

2.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand the concepts of marketing and its evolution
- Explain the difference between traditional marketing and modern marketing

- Know the difference between selling and marketing
- Understand the elements of a marketing mix
- Describe the marketing environment of a company

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2.2 MARKETING CONCEPTS

Marketing may be defined as the process which ensures that potential clients or customers show interest in a particular product or service. You could also say that marketing is an activity encompassing tactics and strategies employed for the identification, creation and maintenance of a satisfactory relationship with the customers. This activity ensures value for not only the customer but also the marketer of the product or service.

In simple terms, marketing is defined as the process of identifying customer needs and serving these needs profitably. If a company only stresses on attaining maximum profits, then they will never succeed. On the other hand, if a company is sensitive to its customers' needs, then profits will follow. Therefore, it can be said that profits result from understanding and serving customer needs efficiently.

One of the main goals of a business is profit. Attaining a certain level of profit is required by an organization due to the following reasons:

(i) To keep the interest of stakeholders in business

(ii) Enhancing organizational capabilities to improve its products and services

Therefore, organizations should have a profitable turnover. As scarcity of resources may affect the organization's ability to provide products and services to its customers, it can be said that a business that only focuses on increasing its profits will not be able outlast stiff competition in the market. Profit maximization should be one of the major goals of an organization and not the only goal. In order to run a successful business, customer needs should be prioritized. If the interest of customers is comprised, it will result in a conflict situation with the profit maximization goal of the organization. Customers withdraw their support towards such organizations where customers are not a top priority and their interests are compromised in the pursuit of profit maximization.

Companies which are successful in the industry normally depend upon its customers to return for future purchasing and recommend the company's offerings to others. Therefore, marketing aims to influence as many customers as possible and also develop a long-term relationship by satisfying their needs. Attracting new customers is a more expensive deal in comparison to sustaining the existing customers. Organizations that focus on marketing, make it their main objective to enhance their existing relationships by making their customers a priority and ensuring that they provide complete satisfaction to their customers. They attract new customers by building expectations and promising to provide value. New customers

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find the company's promise credible as the company's existing and erstwhile customers vouch for it.

Various concepts related to marketing have come up which are worth considering. The five primary ones are the exchange, the sales, the product, the marketing and the production concepts.

According to the exchange concept, marketing revolves around the exchange of a good or product between the seller and the buyer.

The sales concept highlights the importance of aggressive pushing and promotion of products. Therefore, organizations patronizing this concept will concentrate on promotion campaigns, price discounts, heavy publicity and effective public relations.

The product concept believes in achieving profits and conquering markets through new products, product excellence, well designed products and properly engineered goods.

On the other hand, the production concept believes that markets can be conquered by producing in high volumes. According to this concept, high volume of production will lower the unit cost and result in attracting customers.

In the marketing concept, the consumer is the beginning and the end of all activities, or in short, the business cycle. Therefore, all the activities and the employees in the company are customer-oriented. They believe in producing goods that satisfy the customer and fulfil his needs. Therefore, they not only anticipate customer requirements but also stimulate them and do everything possible to fulfil them.

Marketing Concept and its Evolution

Customer needs are discovered and the organization's processes are orchestrated to serve those needs truthfully. A company practising the marketing concept achieves corporate goals by meeting its customer needs better than its competitors. A company which is characterized as market-centric ensures that all major activities taking place in the company are defined by the motto of customer satisfaction. Market-centric companies are aware that customer satisfaction depends on integration of efforts taking place throughout the company. Therefore, customer needs are the focal points of operations in a company which is market-centric. Decisions are taken in these departments considering the impact that the decisions will have on the customers. The role of marketing is to champion the cause of the customer and to orient the whole organization towards serving customer needs. The company's management needs to understand that the company's aims and objectives can only be attained by satisfying its customers.

Every employee in an organization is a marketer

Marketing is not the sole prerogative and responsibility of the marketing department in an organization. Each department, in fact, every employee of an organization,

primarily performs the function of a marketer. His main job is to convey a consistent image of his organization, whether it is to the internal stakeholders (employees, shareholders), or to the external stakeholders (customers, public). The company should realize that every interaction of any of these stakeholders with any employee of an organization is decisive for the ultimate fate of the organization.

Internal communication

Marketers need to communicate formally and informally with people in other departments in their organization more often.

In most of the companies, the marketing department provides data regarding customer needs and preferences. However, when marketers try to share their insights with other departments, the information often ends up being ignored or misunderstood. The problem lies with how often and in what manner the marketing department communicates with other functions in the organization. Marketers who interact with their non-marketing colleagues fewer than ten times a week tend to have their work undervalued by people in other departments. The reason is that, contacts fewer than ten times a week – whether formal or informal, spoken or written – means that the marketer has not been in communication enough to learn what information is needed by others in the company, or how and when it should be presented. Marketing managers who have infrequent contacts with their non-marketing colleagues do not develop the kind of understanding they need in order to provide the right information in a correct format and information needs to be provided in a timely manner.

However, the increased value associated with boosting the frequency of communication begins to level off at about twenty-five times a week. Therefore, marketing managers should strive to communicate between ten and twenty-five times. In fact, marketing managers who communicate with their non-marketing colleagues more than forty times a week also run the risk of having their work undervalued by other departments. Non-marketing managers often receive a flood of information like daily sales reports by product and market. They cannot review all this data or think about it. A deluge of communication confuses and eventually alienates the receiver.

All types of communication like individual and group meetings, phone calls, faxes, mails, voice mails, memos and even a chat in the cafeteria are counted. However, the mix between formal and informal communication matters. A 50-50 mix of formal and informal communication is optimal for getting the marketers' message across. Formal communication is useful because it is verifiable, and in situations where two departments have different styles, a formal procedure for communication can reduce conflicts. Informal communication allows people to exchange critical information unlikely to be found in a real report, such as the 'real' reason why a customer defected. They can also help clarify and give meaning to what is said in more formal communications. Moreover, they present an opportunity for people to ask 'dumb' questions which they otherwise would not. The

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spontaneous nature of informal communication also does not give participants the time to develop politically motivated opinions.

(i) Exchange concept

An exchange process is a process where in a person or a business organization takes a decision to satisfy a need or want of its customers by offering goods or services or even financial aid in exchange.

According to Gary Armstrong, 'Exchange is the act of obtaining a desired object from someone by offering something in return.'

For example, you go for shopping and you buy your favourite dress. You pay for your dress through your credit card. This is a basic exchange relationship.

Marketing managers try to create a response from a marketing impetus. This is the beginning of the exchange process. It is to be noted that marketing extends further than goods or services. It could be that a government is trying to convince its population to quit smoking or speeding to drive safely. Therefore, marketing is a series of actions and plans that are designed to recruit, retain and extend goods and services to a target audience. This is the basic exchange process in marketing.

The exchange process further leads to relationship marketing. Relationship marketing helps develop long-term relationship with our target audience and also aim to grow our business. By delivering value to our customers, we constantly encourage the relationship with customers.

(ii) Production concept

The production concept in marketing is characterized as a competing philosophy which is production oriented and has an inward-looking orientation. Management becomes cost focused. A company tries to achieve economies of scale through the production of limited products in such a manner that production costs are reduced. The major aim of the company is to reduce costs, which is done for the company's own personal benefit. In production orientation, business is defined in terms of products that the company is making. The management does not define business in terms of serving particular needs of customers.

The business mission is focused on current production capabilities. For example, a film production company determines their business according to the product produced. This means that they are slow to respond when consumers shift the way they spend leisure time and their demand for watching cinema declines. Thus, the main focus of the film production company should be to manufacture its products, i.e., make films more aggressively in order to sell them to their customers. When customers need change, production-oriented companies are not able to sense them and they continue to produce products and services which no longer serve the needs of the customers. However, even when they are able to sense such changes in customer needs, they are so convinced about the superiority of their offerings that they refuse to make a departure.

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Marketing-centric companies stress on customer needs. Products and services are just considered as means to serve the needs of the customers. Change and adaptation are endemic in marketing-oriented companies. Potential market opportunities arise from changing needs of the customers. The company then focuses to produce these new products and services. With specific competencies, market-oriented companies change their products and services. This change takes place on the basis of current and latent market demands. These companies try to close in on their customers in order to understand their requirements and issues.

(iii) Selling concept

The contradiction between marketing and selling is crucial as it gives insight into why marketing gauges the requirements of the customer and selling is largely a wasteful activity. The dichotomy between the two concepts has been discussed later in the unit.

(iv) Product concept

When companies become hinged to improving their product, they lose sight of the fact that the product is only a way of fulfilling the needs of the consumer. The disadvantage of adhering to the philosophy of the product concept has been discussed in detail in the next section.

(v) Marketing concept

A significant concept of marketing is that organisations survive and continue to grow by meeting the needs and wants of its customers. This important perspective is commonly known as the marketing concept.

The marketing concept focuses on coordinating the capabilities of an organization with the needs and wants of the customers. This matching process takes place in a marketing environment.

Marketing activities are not undertaken by businesses single-handedly. Factors such as threats from competitors, and changes in the political, economic, social and technological environment, should be taken into consideration by business organizations to meet the requirements of its target customers.

An organisation that adopts the marketing concept accepts the needs of potential customers as the basis for its operations. Success is dependent on satisfying customer needs.

2.3 TRADITIONAL MARKETING VS MODERN MARKETING

As there was no common medium of exchange in the ancient times, there was an exchange of goods and services called the barter system. It involved direct exchange of one good for some quantity of another good. For instance, some quantity of

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wheat or other grain was exchanged for a horse or a cow. Each party involved in the transaction acted as a buyer as well as a seller. For a transaction to take place between two parties, it was necessary that there be a double coincidence of needs and wants. The barter system belonged to a moneyless economy. It was a simple system in which people produced goods and services both for self-consumption and for exchange. In rural India, this form of trade still exists as the '*Jajmani* system.'

2.3.1 Marketing under the Money Economy

The barter system was an inconvenient system as it insisted that there be a double coincidence of needs and wants between the parties involved in the transactions. Later, when money came to act as a common medium, the exchange process became easy and convenient. The development of paper money is considered to be an important milestone in the history of the exchange process as it removed all the difficulties of the barter system and facilitated the trade. Paper money acts as a common medium for exchange and denotes the value of a product or service. It has broken up single transaction into separate transactions, i.e. sales and purchase, and eliminated the need for the double coincidence of needs and wants.

2.3.2 Modern Complex Marketing System

Before the Industrial Revolution, single individual producers – farmers, artisans, family-based cottage or small enterprises – dominated the exchange process. They secured orders and produced for geographically proximate customers. Producers and customers were generally known to each other, and therefore, selling was not a problem.

The situation changed with the onset of the Industrial Revolution in the late 18th century. The invention of the steam engine, electricity, telephone, etc., propelled further development of the human society. Newly built factories came up and produced goods at lower costs in larger quantities. Production centres resulted in the emergence of towns and cities. People from villages migrated to cities and their way of living underwent a change. They started buying factory made products. New types of companies emerged; for instance, the MNCs of today mostly originated in the beginning of the 20th century. In India, many companies were founded during the second and third quarters of the 20th century. The Birlas set up their business in 1937-38; the Tatas being the earliest, set up their business in the beginning of the century.

Most companies were organized as single proprietorships, partnerships, family owned companies and large corporations. They were either privately or publicly owned and were operated for making profits or providing services to the public. At the same time, companies also began to realize that the administration of all phases of business was beyond the capabilities of a few individuals in the company. Therefore, authority was delegated to others and separate departments were created for different functions of a business operation. The sales department, for instance, looked after

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sales and market expansion. The marketing and sales department grew in importance as competition increased in the market and the task of the sales department became increasingly complex. Market research, planning of advertising campaign, personal selling and sales promotion became inevitable functions of this division. Companies thus shifted part of their marketing function to outsiders – retailers, wholesalers, agents and brokers. Specialized services for advertisement planning or marketing research were also entrusted to agencies. In this way, marketing research agencies, advertising agencies and media agencies came to exist.

Today, marketing is a complex activity. The single most important reason that can be attributed for this complexity is the rapid advancement in technology. In order to generate and maintain demand, companies employ novel and sophisticated techniques to reach their target customers. In certain sectors, there is no face-to-face interaction between the service provider and the customer. The Internet and mobile telephony have made banking much easier. Online shopping has also become very popular.

Advertising Agencies

Special skills are required for developing an advertising campaign, therefore a company opts to work with an advertising agency. Larger agencies offer full service comprising creative work, media planning and buying, planning and strategy development, market research and production. Key figures in the development of a campaign are account directors and executives who liaison with client companies and coordinate the work of other departments on behalf of their clients. Since agencies work for many clients, they have a wide range of experience and can provide an objective outsider's view of what is required, and how problems can be solved.

Agency selection begins by clearly defining requirements. A furniture chain may place maximum emphasis on media selection so that the lowest cost per thousand can be achieved for their straightforward black and white product advertisements. A company marketing drinks or perfumes may place more emphasis on the creative talents of the prospective agencies.

A company can sift advertisements in various mediums and identify those advertisements that they consider exceptional. Agencies that made those advertisements can be evaluated further for their suitability.

Marketing Research Firms

A company may use the full services of a marketing research agency. The company briefs the agency about its marketing research requirements and the agency does the rest. The agency prepares a research proposal stating the survey design and costs, conducts exploratory research, designs the questionnaire, selects the sample, chooses the survey methods (telephone, postal, inter personal), conducts interviews, analyses and interprets the results, prepares a report and finally makes a presentation.

2.4 SELLING VS MARKETING

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The focus on costs drives the management to achieve economies of scale through the production of a limited variety of products in an economical manner. In other words, this brings production costs down to a minimum.

Film production companies, for instance, define business in terms of the films produced. Therefore, when consumers change the way they spend their free time, and stop going to the movies as frequently, these companies will be slow to respond. This is because, film companies are production oriented. Their very objective is to produce films and sell them aggressively.

Changing needs translate into future marketing opportunities because companies then try to fulfil the new needs by offering not just new/innovative products but also new or improved services. Within the limits of their expertise, aptitude and strength, market-driven companies try to adapt their offerings to the demands of active/current or dormant markets.

There is also an implicit contradiction between **marketing** and **selling.** Marketing involves gauging a customer's requirements and designing a product or service to serve that requirement. Once the company has designed and made a product according to the customer's requirement, it only needs to be made available to the customer. The product or the service sells itself. However, when a product or service is not designed and made according to a customer's exact requirements, a customer has to be persuaded to believe that the product or the service meets his requirements. This is selling. Selling is largely a wasteful activity. It consumes a lot of organizational resources, as the company forces the product on the customer. Even if a company manages to sell a customer a product or service that does not really serve his requirements, the customer is anguished and becomes suspicious of the company. Such a customer 'bad-mouths' the company. A company truly practising the marketing concept will not need to sell its product. Marketing makes selling redundant.

Some companies become centred on constantly improving the product. Such companies prescribe to the philosophy of the product concept. Continuous attempts are made to improve the product and its quality as it is believed that customers would always prefer to buy the product that is superior. This often results in a myopic focus on the product, without any attention on the other ways in which customers can fulfil their needs. This is called **marketing myopia.** The company is so focussed on improving the product that it loses sight of the fact that the product is merely a way of fulfilling customer needs. In other words, the customer does not buy a product, he buys an offering that fulfils his needs. For instance, a customer watches television to fulfil his need for entertainment. He may consider watching a movie in a theatre, reading a book or listening to music as other ways of fulfilling his need for entertainment. The company, however, stays focussed only on improving the television. In India, several no-frills airline companies have started

offering their services at low prices that are comparable to the ticket prices of air-conditioned coaches of the Railways. Customers have started switching over to airlines as a preferred mode of travel due to lesser time involved at little or no additional cost to them. Whether he travels by rail or by air, the customer is basically fulfilling his need for reaching a destination.

Marketing myopia is dangerous, because it does not allow the company to explore other more effective and efficient ways of serving the customer need that its product is serving. It is often foxed by companies who devise better ways of serving the same customer need. Since customers do not have any attachment to the product, they desert the company and adopt a new way of serving their need. The myopic company is left alone, clinging to its product.

Check Your Progress

1. Why is it important for an organization to attain a certain level of profit?
2. What is the barter system?
3. Define marketing myopia.

2.5 MARKETING MIX

Marketing mix is a particular combination of the product, its price, the methods to promote it and the ways to make the product available to the customer. Based upon its understanding of customers, a company develops its marketing mix of product, price, place and promotion. The elements of the marketing mix are intricately and sensitively related to each other. The marketing mix is good or bad as a whole. All the elements have to reinforce each other to enhance the experience of the customer. When a change is proposed to be made in one of the elements, it has to be checked if the changed element still fits with and reinforces other elements, or has it started contradicting other elements, making the marketing mix less effective in serving customers. A company's marketing mix must satisfy customer needs better than the competition. A company implements its strategy through its marketing mix.

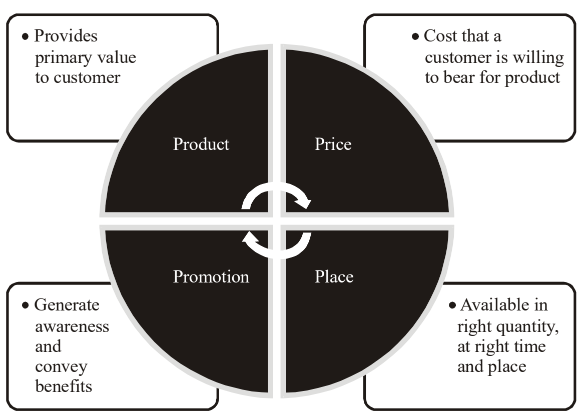


Fig. 2.1 Marketing Mix

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Product

Product decision involves deciding what goods or services should be offered to customers. The product or service serves the basic need of the customer. The product provides primary value to the customer. The customer gets interested in the company primarily because of the product or service it is producing or proposes to produce. All other elements should be reinforcing the value proposition of the product.

An important element of product strategy is new product development. As technologies and tastes change, products become out-of-date and inferior to competition. So companies must replace them with new designs and features that customers value. The challenging task is to include the latest available technologies and solutions to the latest needs of the customer in a company's product.

It also has to decide its branding strategy, and how the other three Ps will complement its product strategy, which essentially involves decisions regarding packaging, warranties and services.

Price

Price is the cost that customer is willing to bear for the product and the way it is made available to him. Price represents on a unit basis what the company receives for the product which is being marketed. All other elements of the marketing mix represent costs. Marketers need to be very careful about pricing objectives, methods to arrive at a price and the factors which influence setting of a price.

The company gives discounts and allowances to lure customers to buy its products, which means that a company's realized price is less than its list price. Therefore, if a company is generous in giving discounts and allowances, it should keep its list price high. The list price should always have negotiation margin built in it. Payment periods and credit terms also affect the real price, and if a company has generous payment periods and credit terms, it should keep its list price high.

In comparison to other elements of the marketing mix, price can be changed easily. However, an ill-considered change in price can alter customer perceptions about the value of the marketing mix. In the absence of any objective knowledge about the quality of the product, the customer builds a strong association between price and quality. If the price of a product is reduced, customers may start regarding it as an inferior quality product. If a company raises price, customers may consider it a high quality product, but there is also the risk that customers may regard the price as too high for the value that they are getting from the product. Price change, though easy to make, should always be done after taking into consideration the effect the change will have on the attractiveness or otherwise of the marketing mix.

Promotion

Decisions have to be made with respect to promotional mix: advertising, personal selling, sales promotions, exhibition, sponsorship and public relations. By these

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means, the target audience is made aware of the existence of the product and the benefits that it confers to customers.

The type of promotional tool used has to gel with other elements of the marketing mix. An expensive product, like machinery, with limited number of customers should be promoted through personal contacts between buyers and salespersons. Advertising in the mass media would be wasteful as the number of customers is far too small, and it would be ineffective as the customer will not make a decision to buy such an expensive product based on a little information provided in an advertisement. He will require extensive information to be able to make a choice. But an inexpensive product bought by the mass market can be advertised in the mass media.

Even the nitty-gritty of a chosen promotional tool should enhance the marketing mix. The media used, the celebrity chosen to endorse the product, the training provided to the salesperson, etc., should reflect and reinforce other elements of the marketing mix.

Normally the company makes its first contact with customers through its promotional efforts. A customer does not buy a product unless he has formed certain expectations about the product. Promotion shapes the expectations of customers about the product. Used rightly, promotion can raise customer expectations and drive sales. But if a product is hyped, though customer expectations are raised, he will be disappointed when he actually uses the product and does not find it up to his expectations. Such disappointments engender negative word-of-mouth publicity and may leave a permanent dent in the company's reputation.

Place

Place involves decisions concerning distribution channels to be used, the location of outlets, methods of transportation and inventory levels to be held. The product should be available in the right quantity, at the right time and place. Distribution channels consist of independent intermediaries such as retailers, wholesalers and distributors through which goods pass on their way to customers. These intermediaries provide cost-effective access to the marketplace. It will be extremely costly and cumbersome if the manufacturer had to set the entire infrastructure needed, to manage the transfer of goods to the customers. The manufacturer has to manage and structure relationships with these intermediaries in such a way that interests of the manufacturer and intermediaries are served.

Distribution channels perform three distinct functions. They transfer products from the manufacturer to the customers, they pass information from the manufacturer to the customers, and they retrieve payment from the customers to the manufacturer. It is possible to segregate these three functions as alternate means of delivering products, passing information and collecting money are developed. In internet marketing, information is provided on the manufacturer's website, the product is sent from the manufacturer's store to the customer through courier service, and

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payment is collected by banks through credit cards. A company should have an open mind while designing its distribution strategy. The three functions have to be performed, but it is not essential that all the three functions are performed by one channel. Three separate channels can perform a function each, depending on each channel's efficiency and effectiveness in carrying out the function.

2.5.1 An Effective Marketing Mix

An effective marketing mix must meet customer needs better than competitors. Various elements of the marketing mix must be in sync with one another. It must also be mindful of the company's resources.

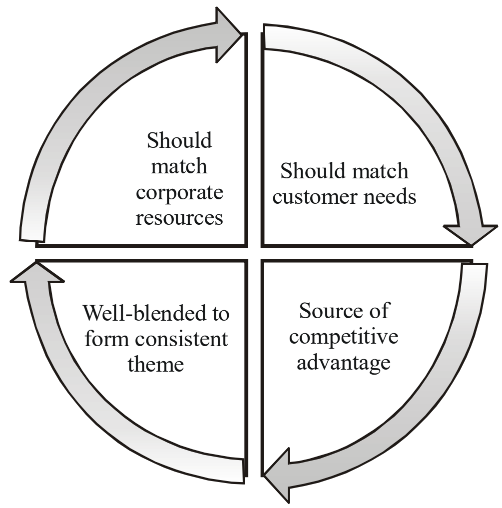


Fig. 2.2 An Effective Marketing Mix

- **Customer needs form the basis of designing the marketing mix:** The target customer has to be understood in terms of his level of need, his ability and willingness to pay a particular amount for his needs being served, the way he would like the product to be delivered, and his most preferred method of accessing information from the company. Once the target customer is identified and understood, marketers need to understand how he chooses among rival offerings. A company needs to understand the choice criteria that the customer uses in evaluating offerings of different companies. The marketing mix should reflect the customer's choice criteria.
- A product becomes a part of a customer's being, and he expects that the product he buys will provide both economic and emotional value. Therefore, a customer evaluates a product on both economic and emotional criteria. Economic criteria include factors such as performance, availability, reliability, durability and productivity. Emotional criteria include self image, pleasure, convenience and risk reduction. It is important that a company makes an exhaustive study of customers' economic and emotional choice criteria, and ensures that its marketing mix satisfies those criteria better than competitors.

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- **The marketing mix is a source of competitive advantage:** The four elements of the marketing mix provide different types of competitive advantages. A company can load features and benefits in its product in excess of what the competition is offering. A company can use brilliant advertisements to impress customers, especially when its product is subjective and amorphous in nature. It can use celebrities in its advertisements to generate credibility among customers. The size and quality of sales force can act as a competitive advantage. Distribution decisions need to be made with the customer in mind, not only in terms of availability, but also with respect to service levels, image of the outlet and customer convenience.
- **All elements of the marketing mix must synergize with each other to create a unified image:** If a company launches a premium product, it should keep its price high, sell it only in upmarket stores, and use a suave celebrity to endorse the product. The elements of the marketing mix should not send conflicting signals to customers–a customer does not know what to make of the product's stylized and sophisticated advertisement if it is being sold from very ordinary stores. All the elements of the marketing mix should reinforce each other to strengthen the positioning of the product in the marketplace.
- **Company's resources and competencies constrain the marketing mix:** It is always tempting to provide to the customer the highest quality product at the lowest price, in a way most convenient to him, with the offering promoted in the most sophisticated way. But such a marketing mix would be very costly to provide. The choice of the marketing mix is always constrained by the financial resources and internal competencies of the company, and the customers' willingness and ability to pay for such an exalted marketing mix.

2.5.2 Pitfalls of the Marketing Mix

Marketing mix oversimplifies the realities of the market. In services, the 4Ps do not take into account people who provide the service, processes and physical evidence. In services, people are often the service itself. The process or how the service is delivered to the customer is as important as the output of the service. The physical evidence, like the check-list in a car service or a surgeon's uniform, gives signals to customers about the quality and reliability of the service.

In industrial markets, marketing mix is important, and its elements can be synchronized to provide desired value, but long term relationship between the buyer and the seller is probably more important. A seller can use his strong relationship with a buyer to keep out other sellers. Sellers are going beyond the marketing mix to provide services like assured and just-in-time delivery to cement their relationships with buyers. Buyers fear that while an outside supplier may have a superior marketing mix in comparison to that of its incumbent supplier, the former may not be able or willing to provide the services that the latter is providing. The idea is to make the buyer so dependent on the supplier that he cannot contemplate doing business with anybody else.

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But these elements can be incorporated within the marketing mix framework. For example, people, process and physical evidence can be seen as part of 'product' and building relationships can be made part of 'promotion'. The strength of the marketing mix or 4Ps approach is that it allows companies to focus on a tangible aspect of concern to the customer. The company can work to improve an element or can redesign the element to synchronize with other elements. Marketing mix converts marketing from an abstract discipline into something more concrete.

2.6 MARKETING ENVIRONMENT

A marketing-oriented company looks outside its premises to take advantage of the emerging opportunities and to monitor and minimize the potential threats faced by it in its businesses.

The environment of a company consists of various forces that affect the company's ability to deliver products and services to its customers. The micro environment of the company consists of various forces operating in its immediate environment that affect its ability to operate effectively in its chosen markets. This includes the company's suppliers, distributors, customers and competitors. The macro environment consists of broader forces that not only affect the company and the industry, but also other factors in the micro environment. These forces shape the characteristics of the opportunities and threats facing a company. These factors are largely beyond the control of a company.

The environment can affect a company in dramatic ways. A company can have the best technologies, the best employees and the best of suppliers but it can fail miserably if any of the factors, such as the exchange rate, policies of the host government or the changing needs of customers, starts to act against it. Similarly, a mediocre company can be spectacularly successful if the factors in the external environment start favouring its strategies and policies. It is imperative that companies keep a close watch over the environmental factors that may affect them and prepare themselves adequately to face the emerging challenges.

An organization is a subsystem in the larger socio-economic environment. It receives human, material and financial resources from the environment and converts them into useful products and services to serve their target customers. In this process, the organization has to interact with a host of suppliers, competitors, the public, customers and the government. All these agents and institutions act as the environment of the organization. They act as facilitators as well as impediments in the marketing efforts of the organization.

Components of an Organizational Marketing Environment

A company's environment consists of:

- A company and its own environment – organizational as well as cultural
- A company's task environment — suppliers, intermediaries and markets

- The competitive environment— competitors in a market
- The public environment
- Macro environment—uncontrollable variables

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Internal Micro Environment

This consists of the environment within an organization, i.e., the organizational culture. For example, marketing is the function of a department in an organization which impacts and is impacted by the decisions of other departments of the organization.

Shared values and beliefs, which form the culture of an organization, are necessary prerequisites for successful marketing orientation. Every employee in every department should believe that business goals can be achieved only through heightened awareness of customer needs and a tireless zeal to serve those needs. Customer orientation cannot be drilled into the workforce overnight. Fables have to be created and circulated, extolling customer care. Top executives have to repeatedly demonstrate concern for customers in their strategic and operating decisions and their own behaviour. People should feel proud and good about themselves that they go out of their way to serve customers. This can be a problem for long-established companies that did not put the customer first. Such companies have to be patient. They should not expect their employees to change overnight from ignoring customers to serving them.

External Proximate Macro Environment

This includes suppliers, marketing intermediaries, competitors and the public.

(a) Supplier's environment

Every organization has a number of suppliers. From a manufacturing concern, the suppliers provide raw materials, components, machinery and equipment; for wholesalers, the manufacturer is the supplier and for retailers, the manufacturer or the distributor is the supplier.

Business buyers draw a product specification and ask the suppliers to make the components for their products in accordance with the specifications and requirements. Usually, suppliers are selected on the basis of strict specifications that are based on economic and technical criteria. Usually, the buyers and the suppliers enter into long-term relationships due to the nature of the products being bought and sold in business markets.

(b) Marketing intermediaries' environment

Marketing intermediaries are organizations that facilitate the distribution of products and services from producers to customers. There are three types of marketing intermediaries-agents and brokers, wholesalers and retailers, and facilitating organizations such as transporters, warehouses, financing companies and freight forwarders.

Producers need to consider not only the needs of the ultimate customer, but also the requirements of the marketing intermediaries.

(c) Competitive environment

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The competitive environment comprises the competitors a company faces, the relative size of the competitors and the degree of interdependence within the industry. The marketing department of a company has little control over the competitive environment confronting it.

Companies should be ready to encounter competitive environments that are very different from the ones they have been operating in. Most companies have faced domestic competition and done well in the limited competitive milieu they have been operating in. Now, all companies face competition from companies all over the world. Governments are unwilling to protect domestic companies because they have realized that they will be doing a great disservice to their economies and people by limiting competition in their own countries. Most governments are going overboard in making their countries attractive destinations for foreign capital, technologies and companies. The game is clear. Only the best companies will survive. The nationalities of companies will not matter and country markets will become intensely competitive.

(d) Public environment

A public is any group that has some interest in an organization and its activities. It is crucial for an organization to not only understand and develop good relations with its target markets and its intermediaries, but also to understand the various types of public that affect its business. By communicating to other groups, the company creates an environment in which it is easier to conduct marketing.

A company has to understand the importance of stakeholders other than its customers, suppliers and channel partners. A company's very existence as a business entity will be in jeopardy if these stakeholders do not have positive perceptions of the company. For instance, it will not be allowed to set up its factories and offices if it has antagonized the community in which the business is to be set up. Aggrieved media and pressure groups can berate the company to the extent that its suppliers and other partners would not want to do business with it. All these stakeholders shape customers' opinion to some extent. In sum, a company would find it impossible to do business if its major stakeholders are aggrieved with it, even if the company has a very good product and marketing programme in place.

There are various types of public, which are as follows:

Customer public

These are the target customers of a company. The main task of the company for this group is to satisfy and retain them.

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Local public

This includes the local community, usually in geographical proximity of the company's office premises and surrounding its factories or manufacturing units. The firm needs to be careful about maintaining good relations with this group and following the environmental norms and safety standards.

General public

It is important for marketers to create positive perceptions among the general public that may be in a position to influence the purchase decisions of consumers, even if they are not customers themselves. Companies build corporate image to achieve this goal.

Media public

Though a company can manage to get talked about in the media without doing anything which is newsworthy, it will not help its cause if the readers or the viewers do not find a story about the company stimulating enough to take a note of and register in their minds. A big portion of the publicity budget is spent on maintaining relations with the media with the hope that the media will feature the company more frequently and prominently. This is wasteful. Instead, the company, depending on the type of business it is in, should expand its resources in staging events, building associations and doing other worthwhile things that the public would be genuinely interested in knowing about.

Savvy companies know the trigger points of public and media attention and conduct themselves in a manner that invites the attention of the public and the media. Their publicity endeavour does not end with courting the media. The media, anyway, will carry stories that its readers and viewers will want to read and view.

Financial public

The public would not invest and banks would not finance a company's operations if it lacks credibility. Therefore, a company must build credibility among these stakeholders.

Government public

A company's policies must always comply with the rules and regulations laid down by the government. Else, it can invite the wrath of the government, which can lead to severe negative publicity.

Citizens' action public

These include consumer action groups, forums, associations, trade unions and environmental groups. Consumerism is a movement that is defined as seeking to increase the rights and powers of buyers in relation to sellers. A combination of consumer concern over rising prices and the problems of product performance

and quality are viewed as the main factors behind consumerism. Consumers are concerned about the marketing activities of companies. They feel that marketers are not clear about consumers' needs and hence, their marketing efforts often result in consumer confusion. Despite problems and confusion, consumers are seen as still able to make sensible buying decisions. Many consumers feel that marketers sometimes manipulate consumers into making unwanted purchases, but companies strongly contend that consumers still hold the ultimate weapon of not buying products. Companies' executives support propositions, which aim at making advertising more factual and informative. They think that consumerism will lead to major modifications in the advertising content so as to make it more truthful.

Business is considered primarily responsible for causing consumer problems as well as resolving them. Business self-regulation is still the most favoured route. Improving product quality and performance is viewed as the most constructive consumer-oriented programme that companies can undertake. There has to be increased sensitivity to consumer complaints.

Internal public

A company creates and maintains respectability in the eyes of the public so that the best people are attracted to work for the company. It promotes the sense of identification and satisfaction of the employees with their company. Talented employees will stay in an organization only if they are proud of belonging to the organization. An employee will not feel proud of his organization if stories of the organization's sordid deeds and its shoddy behaviour are out in the open. But when the public respects their organization, they feel good to be a part of it. Activities such as internal newsletters, recreation activities and awards for service and achievement can be used to promote that feeling.

Company's Macro Environment

These include external factors such as economic forces and technological factors that are beyond the control of the company.

(I) Economic forces

The economic environment can have a major impact on businesses by affecting the patterns of demand and supply. Companies need to keep a track of relevant economic indicators and monitor them over time.

The various factors affecting the economic environment include customers' income, inflation, recession, interest rate and exchange rate, which are discussed as follows:

Income

One of the most important factors in the economic environment is the income of customers. This indicates their ability to spend on the products sold by the marketer. The marketer not only needs to estimate the income of customers, but has also to identify products on which the customer would be willing to spend his money. The

rise in the number of dual-income families in several parts of the world, including urban India, has led to a rise in the incomes for such families. This has resulted in a higher demand for lifestyle and luxury products. However, marketers should be wary of making generalizations while using income as an indicator of consumer spending, because customers' propensity to spend depends on the cultural factors as well. The proportion of money spent by a customer on various products also varies across cultures. Some products, for instance, dishwashers, that are considered to be necessities in the western markets do not even fall into the consideration set of consumers in the Indian markets. Therefore, despite having a higher income, customers will not spend on products that are not considered to be desirable.

Inflation

Inflation is an important economic indicator of an economy. Inflation refers to an increase in prices without a corresponding increase in wages, resulting in lower purchasing power of consumers. An economy should try to achieve low rate of inflation. The best way to achieve a low rate of inflation is to ensure that products and services are produced efficiently. When the costs of production of products and services are low, they will be sold at lower prices and hence, inflation will be low. An artificial way to reduce inflation is by restricting the supply of money in the economy by raising the interest rates at which consumers and businesses can borrow money. There will be less demand and supply will be higher, forcing suppliers to reduce their prices. But this can only be a short-term approach because restricting the supply of money will reduce the outputs of businesses and the level of economic activities. This will be dangerous to the economy. The effort should be to increase the productivity and efficiency of all economic activities.

The inflation rate is higher when costs of producing products or services go up, or when there is too much money chasing too few supplies, prompting suppliers to raise prices and earn higher profits. High inflation decreases real wages, i.e., the customer can buy less number of goods with his income, because the goods have become costlier. Inflation will reduce the demand for several products because the customer will ration his income on goods. But if wages and incomes increase at a rate greater than the inflation rate, the customers' purchasing power will not be affected adversely. In inflationary times, customers stock items to save themselves from further increase in prices and abandon their favourite brands to buy more economical brands.

When the cost of production goes up, companies should try to withhold the increase in prices for as long as possible, because customers do not value the products more just because they are more costly. In the long run, companies will have to look for better methods of production and cheaper inputs so that the cost of production can be brought down. If the inflation is because the supplies are less than the demand, the money supply can be restricted in the short run; but in the long run, companies will have to expand capacities and increase their supplies.

Recession

Recession is a period of economic activity when income, production and employment tend to fall. The demand for products and services are reduced. Specific activities cause recession. The slowdown in the high-tech sector, rising fuel prices, excessive consumer credit and terror attacks resulted in the recession in the US in 2001.

Interest rate

If the interest rate of an economy is high, businesses will borrow capital at a higher rate and set up new businesses only when they are convinced that they can earn at a rate higher than the interest rate they are paying on the capital. Therefore, if the interest rates are high, new businesses will not come. Even in the existing businesses, operating costs would go up as their working capital requirements will attract higher interest rates. Therefore, companies will be able to produce products and services at higher costs and perforce sell them at higher prices. Therefore, there will be inflationary tendencies if interest rates are higher for long periods. Further, consumers will have strong tendencies to save because of the prospect of earning higher interest rates from their deposits. High interest rates have detrimental effects on the economy.

When the interest rate is lower, companies can get cheap capital and the pressure to earn at a higher rate from their new businesses is less. Therefore, new businesses are likely to be set up in low-interest regimes. Furthermore, companies are able to get their working capital at a lower interest rate and consequently, are able to produce products and services at lower costs. Companies are able to sell at lower prices and hence, are able to attract larger number of customers. Customers are also able to get loans at lower interest rates and hence, are able to buy products and services that otherwise they would not have been able to buy. When customers are able to avail loans at low interest rates, sale of expensive items like houses and cars go up. Customers do not have to save and accumulate to buy these products. They take loans, buy the products and keep paying back the loans in small instalments. Lower interest rate is one sure way to spur consumer purchases. Also, consumers are not too keen to save because their money will not grow rapidly due to lower interest rates. Instead, they would spend their money. And when they invest, they are more likely to do so in equity markets because they are more likely to give higher returns. Therefore, business will get impetus because finance in the form of equity capital will be available to them.

Exchange rate

The exchange rate becomes a very important driver of performance when a company exports its products and when it imports materials and components for making its products. It is more profitable to export when the currency of the exporting country is weaker than the currency of the importing country. But this advantage is nullified if materials and components are imported from a country

whose currency is stronger. A company will run its most profitable operations when it exports its product to a country whose currency is stronger and imports material and components from a country whose currency is weaker.

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The exchange rate has become more important when supply chains of most companies are becoming global in scope, i.e., companies are locating their manufacturing and distribution centres throughout the world, depending on the advantages of each location. A company may have located its manufacturing facility in a country, say India, because of the advantages of lower labour cost. However, if the Indian currency appreciates, this decision will not fare well, because exports from India will become costlier to the importer. To minimize the adverse effects of exchange rate, a company locates its manufacturing facilities in multiple locations in the world and has some extra capacity at each of the manufacturing locations. The company will export from manufacturing locations in countries whose currencies are weaker than the currencies of countries where they are being exported.

(II) Technological factors

New technologies can be used very effectively to counter inflation and recession. New machines can reduce production costs. The increasing computing and processing capabilities of personal computers is increasing the efficiency and effectiveness of businesses. Advances in information technology has made it possible to plan truly global supply chains, in which manufacturing and warehousing are disbursed throughout the world, depending on where these activities can be performed best. Companies will be able to make better products at lesser cost and will be able to distribute them economically when supply chains become global. An economy's ability to generate wealth largely depends on the speed and effectiveness of new inventions and adoption of machines that improve their productivity.

Technologies for nations

Economies need to excel in both basic and applied research. Basic research attempts to expand the frontiers of knowledge and is not aimed at a specific problem. Economies which are well-off should concentrate more on basic research because they can remain ahead of other economies only by creating new businesses through inventing new technologies. Developed economies should be ready to relinquish businesses they are currently excelling in, because other economies will catch up with them and the developed economies will not be able to charge premium prices for their products and services.

Technologies for products and services

New products and services are possible because of new technologies. These help to increase revenues and profits of companies. At different times in history, technologies have created new businesses like automobile, railways, telephones, computers, etc. Currently, we are seeing new products and services being

developed by emerging technologies like Internet, mobile connectivity, nanotechnology, genetic engineering, etc. These technologies are likely to fuel growth in the near future.

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Technologies for business models

Companies also use new technologies to do business differently and more effectively. Dell Computers is able to sell its product directly to business customers because the Internet enables it to be in contact with its customers without incurring much expense. It gleans valuable information about its customers from the interactions it has with them. Dell uses the information to segment its market further and then focuses its attention on the most profitable customers. Thus, by using the Internet, Dell is able to earn greater profits by serving only the most profitable customers. There are companies in fragrance and other businesses that have equipped their customers with design tools. The customers design their own products and services and the companies manufacture them. Through these tools, these companies are able to lock their customers in a long-term relationship. Some other companies have used the power of the Internet to create virtual design teams. The members of the teams are experts in different technologies and stationed in different locations.

The team members interact through the new tools of information technology like e-mail, chat rooms, videoconferencing, etc. It has been found that these virtual teams are able to design better products because the best people can be put on these teams without constraints of location and interpersonal conflicts of real teams. There are lots of other ways in which technologies like the Internet are impacting businesses. Therefore, when evaluating new technologies companies should ask two questions-what new products and services can be produced by using these technologies, and how can these technologies be used to run businesses in a better way?

(III) Socio-cultural factors

Customers live in societies. A large part of an individual’s existence is dependent on the society he resides in. Social factors include attitudes, values and lifestyles of people. Social factors influence people to buy a particular product, the prices they are willing to pay for the product, the effectiveness of specific promotions, and how, where and when people expect to purchase products. But societies are hardly ever static. They change gradually and some changes will be imperceptible, if not watched closely. Social change is the most difficult variable for marketing managers to forecast, influence and integrate into marketing plans. However, it is important that marketers take into account changes happening in societies in which their customers live when they are framing their marketing strategies. Societies can change in manners that can make a company’s current products and services totally redundant. Some of the various socio-cultural factors include values, lifestyle and family structure.

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(IV) Demographic factors

Demography is the study of people in terms of age, gender, race, ethnicity and location. Demographics are significant because people constitute markets. Demographic characteristics strongly affect buyer behaviour. Faster growth of population accompanied with rising income means expanding markets. The longer life span means a growing market for products and services targeted at the elderly.

Adolescents

The new-age teens are a marketer's delight. They do not earn, but they are fond of spending and most of them have their own budgets. They spend lavishly on clothes, eating out, going out, buying latest gadgets, etc., and are very keen to catch on with their friends in terms of possessions and lifestyles. They do not feel guilty of spending their parents' money and put on real pressure on their parents to shell out more money for them. They will put their parents in financial inconvenience but they will have their motorbikes and fanciful mobiles, and will hang out at eating joints, theatres and malls. They are stylish and fashion conscious and submit to peer pressure. They will latch on to the next hot item. They feel they need to have a life of their own and it should not be denied to them just because they are not earning.

Youth

Youngsters today are growing in a more media-influenced, brand-conscious world than their parents did. They respond to advertisements differently and prefer to encounter these advertisements in different places. Companies have to take their messages to the places where these youngsters frequent, whether on the Internet, in a cricket stadium or on television. The advertisements may be comical or disarmingly direct. But the advertisements should never suggest that the advertiser knows these youngsters better than they know themselves. These youngsters know what they want from their lives and the products and services they buy. They do not mind information reaching them but will reserve their right to make their choices. They hate to be persuaded and influenced. Companies would do well to leave them alone to make their decisions. They will access and process the desired information themselves and will let their choice known to the marketers. For these youngsters, anyone can be a star and most of them count themselves as one. They believe that everyone deserves to have his say and own space. For them, getting heard and becoming well known are not only easy, but a natural way to go about with their lives. They create their own websites, make a movie with their own webcam or digital camera and post their thoughts and pictures online. Since they are sure about themselves and know what they want, they prefer customized products and services. Companies are realizing that they have to provide something unique and deeply personal to win the loyalty of current youngsters.

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People between 35 and 45

People in the age group of 35 to 45 years are settled in their professions and have toddlers and growing children at home. They exert themselves in their profession because they realize that their career is likely to take off at this stage. They put long hours at office and have to juggle endlessly between their responsibilities as spouses and parents and growing responsibilities at work. They may also have old parents to look after. Parents may be staying with them or living in another city.

The income of people in this group rises at a good rate, and they are good spenders. Some of them may be buying their first cars but most of them will be thinking of upgrading their cars. Similarly, they will upgrade their household gadgets like refrigerators, televisions and kitchen appliances when better products come along. They are also open to new gadgets for themselves and their households. People in this age group want to live a good life and are constantly on a buying spree to improve their lifestyles. They dress well, dine out frequently and look for opportunities to go on holidays. These days they are also keen to buy houses very early in their lives. They also plan to retire early and they plan their finances accordingly. They have a taste for good life and they do not want their lives' pleasures to be disturbed by pressures of job.

People between 45 and 60

Some people in this age group are at the peak of their careers while some others are struggling to keep their jobs. Children become a major priority for people in this age group. Children are ready to go to colleges and professional schools, some of them will be willing to make sacrifices in their careers to avoid unsettling their children. People in this age group will spend less as they will be saving resources to fund the higher education of their children. They will also be worried about their own future and making last-ditch efforts to put a retirement plan in place because they do not see many years of career left ahead of them.

People above 60

People in this age group live on a steady income. Some of them live with their grown-up children as part of their households. They contribute to the requirement of the joint household and do not spend much on themselves. The family looks after their requirements. Most of their money is spent on buying gifts for their children and grandchildren. But quite a few of these people live alone and are visited by their children infrequently. They maintain their own households and their major spending is on running their households. They have to spend a substantial part of their earnings on health-related issues and domestic help. Sometimes their children also supplement their income.

(V) Politico-legal environment

Politico-legal environment provides the legal framework within which the marketing department has to function. The politico-legal environment of a country is influenced

by political structures and organizations, political stability, government's intervention in business, constitutional provisions affecting businesses, government's attitude towards business, foreign policy, etc. The viability of businesses depends on their ability to understand the laws of the land and abide by them, while not becoming less innovative in their marketing endeavours due to the fear of infringing on some laws.

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Check Your Progress

4. What are the elements of a marketing mix?
5. What is the politico-legal environment of a country influenced by?

2.7 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Attaining a certain level of profit is required by an organization due to the following reasons:
    (i) To keep the interest of stakeholders in business
    (ii) Enhancing organizational capabilities to improve its products and services
2. The barter system involves the direct exchange of one good for some quantity of another good. As there was no common medium of exchange in the ancient times, this method was adopted.
3. When companies become extremely focused on constantly improving a product, it results in a myopic focus on the product. This results in ignorance of the other ways in which customer's needs can be fulfilled. This is known as marketing myopia.
4. The four elements of a marketing mix are product, price, promotion and place.
5. The politico-legal environment of a country is influenced by political structures and organizations, political stability, government's intervention in business, constitutional provisions affecting businesses, government's attitude towards business, foreign policy, etc. The viability of businesses depends on their ability to understand the laws of the land and abide by them.

2.8 SUMMARY

- Marketing is defined as the process of identifying customer needs and serving these needs profitably.
- Attaining a certain level of profit is necessary to keep the interest of stakeholders in business and enhance organizational capabilities to improve products and services.

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- Various concepts related to marketing such as the exchange, the sales, the product, the marketing and the production concepts are worthy of consideration.
- Marketers need to communicate formally and informally with people in other departments in their organization more often. All types of communication like individual and group meetings, phone calls, faxes, mails, voice mails, memos and even a chat in the cafeteria are counted.
- A significant concept of marketing is that organisations survive and continue to grow by meeting the needs and wants of its customers. This important perspective is commonly known as the marketing concept.
- Traditional marketing entailed an exchange of goods and services, also known as the barter system. Later, when paper money was introduced, the exchange process became easy and convenient.
- Today, marketing is a complex activity. The single most important reason that can be attributed for this complexity is the rapid advancement in technology.
- There is also an implicit contradiction between marketing and selling. Marketing involves gauging a customer's requirements and designing a product or service to serve that requirement. However, when a product or service is not designed and made according to a customer's exact requirements, a customer has to be persuaded to believe that the product or the service meets his requirements. This is selling.
- When continuous attempts are made to improve the product, it results in a myopic focus on the product. This is called marketing myopia.
- Marketing mix is a particular combination of the product, its price, the methods to promote it and the ways to make the product available to the customer. Based upon its understanding of customers, a company develops its marketing mix of product, price, place and promotion. The elements of the marketing mix are intricately and sensitively related to each other.
- An effective marketing mix must meet customer needs better than competitors. Various elements of the marketing mix must be in sync with one another. It must also be mindful of the company's resources.
- The environment of a company consists of various forces that affect the company's ability to deliver products and services to its customers. The micro environment of the company consists of various forces operating in its immediate environment that affect its ability to operate effectively in its chosen markets. This includes the company's suppliers, distributors, customers and competitors.
- Internal environment consists of the environment within an organization, i.e., the organizational culture. For example, marketing is the function of a

department in an organization which impacts and is impacted by the decisions of other departments of the organization.

- The competitive environment comprises the competitors a company faces, Environment the relative size of the competitors and the degree of interdependence within the industry. The marketing department of a company has little control over the competitive environment confronting it.
- The economic environment can have a major impact on businesses by affecting the patterns of demand and supply. Companies need to keep a track of relevant economic indicators and monitor them over time.
- Politico-legal environment provides the legal framework within which the marketing department has to function. The politico-legal environment of a country is influenced by political structures and organizations, political stability, government's intervention in business, constitutional provisions affecting businesses, government's attitude towards business, foreign policy, etc.
- Every aspect of the marketing mix is subject to laws and restrictions. It is important that marketing managers and their legal assistants understand these laws and conform to them, because failure to comply with regulations can have major consequences for a company.

2.8 KEY WORDS

- **Consumerism:** The promotion of acquisition of goods and services is known as consumerism.
- **Marketing Environment:** The marketing environment of a company consists of various forces that affect the company's ability to deliver products and services to its customers.
- **Micro Environment:** The micro environment of the company consists of various forces operating in its immediate environment that affect its ability to operate effectively in its chosen markets. This includes the company's suppliers, distributors, customers and competitors.
- **Macro Environment:** These include external factors such as economic forces and technological factors that are beyond the control of the company.

2.9 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Why is communication important in marketing?
2. What is the difference between selling and marketing?

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3. What are the three functions of a distribution channel?
4. What are the disadvantages of a marketing mix?
5. What constitutes a company's environment?
6. Identify the components of a company's internal micro environment.

Long-Answer Questions

1. Explain the concepts of marketing.
2. Describe the difference between traditional and modern marketing.
3. What are the elements of a marketing mix?
4. Explain a company's external proximate macro environment and how it affects the business.

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UNIT 3 CONSUMER BEHAVIOUR

Structure

3.0 Introduction
3.1 Objectives
3.2 Consumer Behaviour: Meaning, Importance, Nature and Scope
3.3 Factors Influencing Consumer Behaviour
3.4 Answers to Check Your Progress Questions
3.5 Summary
3.6 Key Words
3.7 Self Assessment Questions and Exercises
3.8 Further Readings

3.0 INTRODUCTION

An understanding of consumer behaviour provides an insight to the marketer regarding the ways in which consumer's buying decisions can be influenced. Studying consumer behaviour will help the marketers understand how consumers finalise a product. This information can then be used to engage with the client and transform them into a buyer. Different customers spend varied amount of time and effort while making purchase decisions. Customers spend different amounts of time and effort in different purchase decisions. The level of involvement is dependent on factors like the type of product, the level of perceived risk, the consumer spend and the purchase consequences.

The unit will discuss the types of behaviour that different customers demonstrate in buying and using the same product, and the different types of behaviour that the same customer demonstrates in buying different products, elevates marketing to a discipline much more intricate than product management. Even the same customer may not behave in an equivalent fashion while buying the same product under varying circumstances. By studying the behaviour of customers, it becomes possible to segment the market in new ways and serve them with different marketing mixes even if the product of the varying marketing mixes may be the same.

3.1 OBJECTIVES

After going through this unit, you will be able to:

- Analyse the nature and scope of consumer behaviour
- Describe the consumer buying process
- Understand the various factors influencing consumer behaviour

3.2 CONSUMER BEHAVIOUR: MEANING, IMPORTANCE, NATURE AND SCOPE

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In this section, you will learn about consumer behaviour. Consumer behaviour can be categorised into varied roles:

Buyer Roles

When an individual consumer makes a purchase, he unilaterally decides what he would purchase and how. But, groups like households also make purchases, and in such buying processes, members of the group influence the purchase decision in many ways and at different stages in the buying process. Members assume specific roles as the buying process proceeds and they interact actively to make the purchase decision.

Initiator

The person who starts the process of considering a purchase is the initiator since he feels the need for the product. He may also initiate the search for information about the purchase decision on his own or by involving others.

For instance, a teenager may act as an initiator for a motorcycle that he wants for commuting; a housewife may feel the need for a higher capacity refrigerator or a busy executive may feel the need for apparel that is comfortable and stylish.

Influencer

The influencers attempt to persuade others in the decision-making process to influence the outcome of the process. Influencers gather information and attempt to impose their choice criteria on the decision. These influencers may be sought out by the initiator or may supply relevant information on their own. Influencers may be a part of the reference group of the initiator, experts in the particular categories, retailers, or other such individuals from whom information is sought.

Payer

The payer is the individual with the power or/and financial authority to purchase the product. The payer is usually presumed to have a large influencing power on the product purchase as the spending power lies with him.

Decider

The decider is the person who makes the ultimate choice regarding which product to buy. This may be the initiator or the payer or the user, depending on the dynamics of the decision-making process.

Buyer

The buyer conducts the transaction. Usually, the buyer is the only player whom the marketer can see being involved in the decision-making process. Merely, interviewing him about the purchase does not serve the purpose of the marketer who wants to explore the consumer decision-making process. This is because as at the time of purchase, all other evaluations have been completed which have involved several other players as well. The importance of these players is crucial in deciding the relevant marketing mixes.

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User

He is the actual user/consumer of the product. The user may or may not be the initiator. The product can be used by an individual, or it may be used by a group.

Some points need to be noted in the decision-making process for consumers:

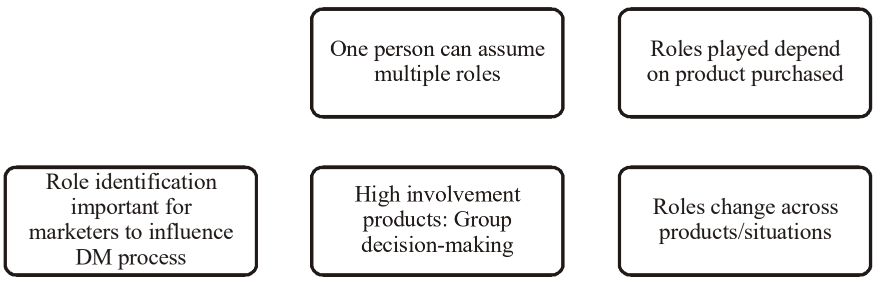


Fig. 3.1 Consumer Roles

- **One person may assume multiple roles in the decision-making process:** Depending on the product to be purchased, all the roles may be assumed by the same person. In case of low involvement products such as a pen, this is likely to occur. In high involvement categories, there is a clear separation of buyer roles.
- **Roles differ according to the product type being bought:** Women's roles have been found to be more significant for household products. Respective roles may change according to product categories, and as purchasing process progresses. In a group decision-making process such as in household decision making, members collaborate to make the purchase decision. In such a joint decision-making process, different members play different roles at different stages, depending on their competencies and also their influence. The group may allow a member to dominate a particular stage because of some special competencies that he might possess. For example, a younger member of the group might be asked to evaluate brands of laptops on the basis of relevant choice criteria as he is more technology savvy than others. However, as soon as he has presented his evaluation, the decision-making process becomes collective and the other members in the group start influencing the purchase process. The final purchase decision is

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almost always taken jointly. Joint decision-making prevails in dual-income households. The same consumer assumes different roles depending on the product in question. Marketers have to understand the dynamics of group decision-making. It is important to gauge who is the dominant influencer in the decision-making process and what type of roles are played by various players.

- **More people are involved in the purchase of high involvement products:** If the product is expensive, it carries high-perceived risk. Since the product would be bought again only after a long time, members want to ensure that they buy the right brand. Therefore, a lot of information is sought from several sources to enable the group to make the right choice. A high involvement product is evaluated on the basis of several choice criteria and the evaluation is more stringent. Therefore, joint decision making of high involvement product is lengthy. Each member wants to buy the brand which is good according to his choice criteria. Thus, conflicts and compromises are inevitable before the household settles on a brand.
- **The group solicits opinions of experts to limit the influence of powerful members of the group:** A member may try to exploit his ties with other members to get his way. Emotions may run high when a household is making a purchase decision, especially when the user and payer differ in their choice.

It is important for a company to understand the roles played by members while purchasing its products. It should target its communication at influencers and deciders. It should also know their choice criteria so that the product is differentiated along the preferred criteria, and it is able to communicate that its product is good according to their choice criteria. It should also keep track of how roles within a group are changing.

Choice Criteria

Choice criteria are the various features and benefits a customer uses when evaluating products. These factors provide the basis for deciding to purchase one brand or another. Different members of the buying group may use different choice criteria. A child may use style as a criterion when choosing shoes whereas a parent may use price. Choice criteria can change over time due to changes in income through the family life cycle, change in circumstances or changes in the attitude of an individual. For instance, as income increases, price may no longer be a choice criterion but may be replaced by status.

The Buying Situation

Customers spend different amounts of time and effort in different purchase decisions. The level of involvement of the customer depends on the type of product, the level of perceived risk, the consumer spend and the purchase consequences.

3.3 FACTORS INFLUENCING CONSUMER BEHAVIOUR

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Let us begin by studying the personal influences.

I. Personal Influences

Various factors influence the decision-making process of a consumer. Some of these are internal factors or personal influences that are individualistic in nature. These factors are not visible, though they influence the consumer to a great extent. Learning, perception, motivation, attitude, self-concept, etc., are some of the factors. The processes by which these factors influence consumers have to be examined and understood by the marketer by conducting appropriate research. The effect of these factors cannot be verbalized by the consumer as he may not be able to realize their influence on him. For instance, motivation is one such factor about which traditional surveys reveal little, as the consumer is not able to tell the exact reasons for opting for a particular choice. Qualitative, exploratory research using alternative methods such as projective techniques, word completion tests are used to ascertain consumer motivations.

Perception

Perception is the process by which a person selects, organizes and interprets sensory stimulation to form a meaningful picture of the world. It is the process by which a consumer makes sense of the information that he receives.

Selective attention

Exposure is the first step in the process of perception. The consumer has to first come across the stimulus or be exposed to it in order to interpret it. Attention is the next step in this process.

- A customer pays attention to only a very small number of stimuli. He does not pay attention to a stimulus if it contrasts with his beliefs and experiences. Most customers want to remain ensconced in their beliefs, and consciously and diligently shut themselves out from information which may force them to re-examine their beliefs. They also put a great value on their experiences and do not easily learn from others' experiences. They discount experiences of others when it contradicts with their own experiences.
- A customer pays attention to a stimulus if it contrasts with his background which may include his social status, educational qualification and profession. This is simply because of his curiosity to know about something that he is not intimately aware of. A stimulus which blends with his background simply passes under his antenna due to its familiarity.
- Size, colour, position and movement of a stimulus also determine if a customer will pay attention to it.

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- A customer pays attention to a stimulus if it is related to a need that he seeks to satisfy. For example, if a customer wants to buy a car, he will watch all advertisements of cars very closely.
- A customer pays attention to a stimulus that surprises him because it forces him to check his assumptions and beliefs.

Selective distortion

Consumers proceed to make sense of the information that they have paid attention to. They interpret the stimulus and assign meanings to it.

Selective retention

A customer remembers only a few messages and they usually are the ones which are in line with his existing beliefs and attitudes.

- Selective retention helps to reduce cognitive dissonance—a customer remembers only positive reviews of a car he has bought recently. He actively discounts the negative reviews, often discrediting their source.
- The message about the product from word of mouth and advertising must be consistent to prompt retention.
- Perception depends on the customer, the stimulus and the situation. Thus, the same message can be perceived differently by different individuals.
- The quality of the stimulus can be enhanced to improve the probability of exposure, attention and retention. Communication should be designed in a manner so as to enable distortion-free perception.
- The same consumer can perceive the same communication differently in varying circumstances. For instance, price-offs during festival can be interpreted as an event-related discount, whereas price-offs at other times can be judged as poor brand performance.

Many phenomena related to consumers are driven by the process of perception, for instance, brand image, satisfaction, evaluation of brands and marketing communication. Consumers form perceptions related to several marketing variables such as price, attributes and their importance, country of origin of brands, corporate brands, salespeople, etc.

Learning

Learning is any change in the content or organization of long time memory and is a result of information processing. Perceptual processes lead to additions in memory, if the interpreted information is retained. The customer's memory acts as the internal information source in the decision-making process.

Classical conditioning

Classical conditioning is the process of using an established relationship between a stimulus and response to cause the learning of the same response to a different

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stimulus. The repetitive appearance of the unconditioned and conditioned stimulus ensures that the removal of the unconditioned stimulus evokes the same response.

In advertising, humour is used to please the customer and make him at ease with himself. Humour leads to positive perceptions about the brand that is advertised as it has made him laugh. Use of heavy metal music when advertising a soft drink, imbues the brand with youthfulness and strength connotations.

The creation of brand personality involves using relationships that already generate a desired positive response from the intended target audience. Such images are combined with the brand to create the personality of the brand. The use of colours, symbols, country of origin images, and music in creating brand image are associated with classical conditioning. The use of celebrity endorsements is also based on the belief that the positive image of the celebrity would rub off on the brand image.

Operant conditioning

Learning also occurs through operant conditioning. Operant conditioning is positive or negative reinforcement upon the performance of some behaviour. Sales promotions such as the use of free samples, coupons and price-offs are instances of operant conditioning. If the consumer likes the product, he may purchase it the next time, which is positive reinforcement. If he does not like it, he negatively reinforces this learning by not repeating the brand purchase or even spreading a negative word about it. A company should provide a series of incentives to make the customer buy its product again and again. Each time the customer buys the product, he experiences the pleasure of receiving the incentive, and when the sequence is repeated for a long time, the customer begins to associate buying of the product with a pleasurable experience. Therefore, the company provides positive reinforcements to make the consumer buy the product again and again, till the time he starts associating the buying of the product with a pleasurable experience.

But when a company offers such an incentive for a long period of time, customers begin to expect to get an incentive every time they buy the product. They become conditioned to buy the product for the incentive and not for the intrinsic value of the product. Customers may stop buying when a company discontinues its incentive scheme. Therefore, a company should load so much value in its product that the customer considers the product as a reward in itself.

Cognitive learning

Cognitive learning is the development of beliefs and attitudes without reinforcement. This type of learning primarily involves communication of benefits offered by a product to the intended target audience. The display of information and learning route is rational in nature. Rote learning is learning without conditioning in which companies repeat their messages that are primarily of a rational nature. Consumers are repeatedly exposed to such messages and thus learn about the company's offerings.

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Modelling/vicarious learning

Vicarious learning involves learning from others without direct experience or reward. This type of learning involves copying others or modelling oneself on observed behaviour in anticipation of certain rewards. An advertisement promises rewards to the customer who buys the product. For example, an advertisement of a toothpaste promises 'white teeth' and it is the promise of the reward which motivates the customer to buy the advertised product. The people who are imitated may be product experts, high achievers, or leaders with desirable values. So when a lady gives an admiring glance to the man who is riding the advertiser's bike, viewers imagine the same thing happening to them if they were to ride the advertiser's bike. The desire to imitate thus, stems from the consumer's need to belong or seek affiliation, make correct decisions and uphold similar values or aspirations in life that can be achieved by emulation.

Reasoning

A customer does not simply fall for the promise of the reward in the advertisement when he is buying a high involvement product. He consults other resources, deliberates and then draws his own conclusions. He then forms an opinion about the product. Therefore, advertisements of high involvement products should provide cues about what the product can achieve for the customer, then let him research further and draw his own conclusions.

A customer's opinion about a product is the result of his learning about the product from the information that the company has provided him and the information that has been drawn from his own sources. His opinion about the product is the product's perceived positioning and a company should always try to create a clear and favourable image or impression about its products in the mind of the customer. The company has to ensure that customers continue to learn about its products through advertising, publicity, sales promotion, salespersons' visits, and through their own experience with the products. It is only through learning that the customers form perceptions about the company and its products.

Motivation

The basic process of motivation involves needs that inspire actions to accomplish goals of fulfilling a need or reducing a drive.

Maslow's theory of motivation

Abraham Maslow gave one of the most popular theories of motivation. According to Maslow's theory, an individual could have the following motivations:

- Physiological needs: Hunger, Thirst
- Safety needs: Protection against accidents, ill-health
- Belongingness and love

- Self-esteem and status
- Self-actualization

A customer's motivations determine his choice criteria. For example, a customer whose prime motivation is self-esteem and status will use self-image as main choice criteria when evaluating a car.

Different consumers have varying motivations while buying the same product. Therefore, the choice criteria of various consumer segments differ, and marketers must choose the most relevant motivating factor while positioning their product. For instance, some consumers may buy food for satisfying hunger, some may frequent a fast food joint to hang out with friends or family, while others may enjoy gourmet food service provided by a leading luxury hotel. Each segment considers different motives while buying the same product. Therefore, while the segment that only wants to satisfy hunger may look for convenience or price, these factors may be inconsequential for the segment that wants gourmet food.

Belief and attitude

Belief is thoughts about a product or a brand on one or more choice criteria. For instance, a consumer believes that Swatch offers international quality watches or that a particular hotel has good room service.

An attitude is an overall favourable or unfavourable evaluation of a product. The consequence of a set of beliefs may be a positive or negative attitude towards the product. A customer forms an attitude of a product based on his experience with the product, word-of-mouth publicity, or information that he might have got from the company or searched for it himself from press, internet and other sources of secondary information. Internet has the capability to shape attitudes as a large number of consumers can share their experience with the product. Customer attitudes also impact pricing because the company tries to match price with customer's beliefs about what a good product should cost. The Internet is making price more transparent as customers are able to compare prices that they have paid for the same product.

If customer's attitude about a company's product are positive, and match what the company wanted to create, the company reinforces their attitude by loading the product with features and benefits that match their beliefs about the product. But, if the customers' attitude is not what the company wants them to have, it has to work very hard to correct their misperceptions. It has to start by providing an exaggerated level of those features and benefits which will prompt customers to have the attitude that the company wants them to have. Therefore, the company first tries to make its ACs very energy efficient and then it uses all sources of communication like advertisement and publicity to let the customers know what it has done. It is real hard work and there are no short-cuts.

Personality

Personality is the inner psychological characteristic of an individual that leads him to respond consistently to his environment. A company should understand the personality profile of the target market so that its advertisement can show people of the same personality profile using the product. Typical personality profiles are diametric opposites like competitive versus cooperative, aggressive versus submissive, individualistic versus group oriented. Rarely do customers display such extremes, usually people fall somewhere between the extremes. An individual exhibits a combination of several personality traits with different intensities.

A company endows a personality to the brand by loading features and benefits that serve customer needs—product design and development, and by imbuing it with values and ethos that reflect customers' personality—advertising and publicity. The brand assumes a character of its own which is distinct from others. A branding idea is successful if the customers of the target market start considering the brand as an extension of their own personality. Therefore, a brand is 'cool' or 'suave' or 'rugged.' When a brand acquires a personality, it appeals to customers who value its character. Customers prefer the brands that either match their own personality or portray personalities that they aspire for. For instance, a laptop conveying efficiency and productivity could be identical to an executive's personality. Apparel brands conveying success and material wealth could be aspirational for young executives.

Lifestyle

Lifestyle is the pattern of living as expressed in a person's activities, interests and opinions. Lifestyle analysis groups consumers according to their activities, values and demographic characteristics such as education and income.

Lifestyles have been found to correlate with purchasing behaviour. A company may choose to target a particular lifestyle group with a particular product offering and use advertising which is in line with the values and beliefs of this group.

Life cycle

Needs and income vary according to life cycle stages, but not all customers follow the classic family life cycle stages. Consumer's priorities regarding which products to buy undergoes changes in different stages of the life cycle. His attitude towards life also changes.

II. Social Influences

Besides the internal factors, external factors also influence consumer behaviour. These factors are not individualistic and are external to the individual. These factors include culture, subculture, social class, reference group and family influences. They are associated with the groups that the individual belongs to and interacts with.

Culture

Culture refers to the traditions, taboos, values and basic attitudes of the whole society within which an individual lives. It is essentially associated with a certain nationality or religious identity of an individual. Cultural norms are learnt by an individual from childhood and their influence is so ingrained that it is invisible in daily behaviour. Culture teaches an individual the acceptable norms of behaviour and tells him the rights and wrongs. When an individual deviates from acceptable norms, certain sanctions are imposed on him.

Cultural values affect how business is conducted. Culture also affects consumption behaviour. Cultural influences can be seen in the food habits and dressing style of people. It also influences communication (language), attitudes and values that influence consumption patterns. For instance, attitude towards future security and prosperity affects the propensity to save and consume and also affects decisions about possessions. In many Asian countries, having one's own house is one of the most important indicators of security (it is considered an investment) and lends social standing.

Social class

Social class refers to the hierarchical arrangement of the society into various divisions, each of which signifies social status or standing. Social class is an important determinant of consumer behaviour as it affects consumption patterns, lifestyle, media patterns, activities and interests of consumers.

Though there are various methods of ascertaining social class, it has often been equated with income differences. However, this may not be true. Income differences do contribute to differences in social status, though they may not be the sole cause of differences in consumption patterns or lifestyles. For instance, two consumers earning the same income may differ considerably in lifestyle when one has professional qualification at the post graduate level and is employed at the senior management cadre of a multinational, while the other is self-employed, with education confined to a few years of schooling. Preferences regarding product and brand purchases, media consumption patterns and interests in pursuit of various leisure time activities vary a lot among these two consumers. Such revelations through the years have prompted marketers to measure social class as a composite variable that reflects not just income differences but also other indicators such as educational qualifications, type of profession and designation, material possessions, etc.

Social class may fail to distinguish between contrasting consumption patterns though it remains an important discrimination of consumption patterns. Social class should be used with other measures such as life stage and life cycle.

Reference groups

Reference groups are groups of people that influence an individual's attitude or behaviour. Individuals use these groups as reference points for learning attitudes,

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beliefs and behaviour, and adapt these in their life. Family and close friends are considered to be primary reference groups in an individual's life due to their frequency of interaction with the individual and primacy of these significant others in an individual's life. Schoolmates, neighbourhood, colleagues, other acquaintances are a part of the secondary reference groups of an individual. An individual may or may not personally interact with others to imitate their behaviour, and thus, even those individuals or groups from whom an individual learns by mere observation are also part of his reference group.

Reference groups influence product and brand purchases, particularly when the consumption is conspicuous in nature. Where a product is conspicuously consumed, the brand chosen may be influenced by what buyers perceive as acceptable to their reference groups. In case of conspicuous luxuries, even product consumption is influenced by reference groups. In case of inconspicuous products, reference group influence is lower, as there are little or no consequences (sanctions) for not buying the 'right' choices.

Check Your Progress

1. How does an influencer affect the decision-making process of a consumer?
2. Define choice criteria.
3. What is selective distortion?

3.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Influencers gather information and persuade others in the decision-making process. They attempt to impose their choice criteria on the decision of the consumer.
2. Choice criteria are the several features and benefits that a customer uses while evaluating a product. These features form the basis of their decision to purchase the brand.
3. When consumers proceed to make sense of the information that they have paid heed to, they assign meanings to it. This is known as selective distortion.

3.5 SUMMARY

- Consumer behaviour can be categorised into various roles such buyer roles, initiator, influencer, payer, decider, buyer and user. It is important for a company to understand the roles played by members while purchasing its products.

- Choice criteria are the various features and benefits a customer uses when evaluating products. These factors provide the basis for deciding to purchase one brand or another.
- Customers spend different amounts of time and effort in different purchase decisions. The level of involvement of the customer depends on the type of product, the level of perceived risk, the consumer spend and the purchase consequences.
- Various factors influence the decision-making process of a consumer. Some of these are internal factors, or personal influences that are individualistic in nature. These factors are not visible, though they influence the consumer to a great extent. The effect of these factors cannot be verbalized by the consumer, as he may not be able to realize their influence on himself.
- Besides the internal factors, external factors also influence consumer behaviour. These factors are not individualistic and external to the individual. These factors include culture, subculture, social class, reference group and family influences. They are associated with the groups that the individual belongs to and interacts with.

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3.6 KEY WORDS

- **Operant conditioning:** Operant conditioning is positive or negative reinforcement upon the performance of some behaviour.
- **Perception:** It is the process by which a person selects, organizes and interprets sensory stimulation to form a meaningful picture of the world.
- **Reference groups:** These are groups of people that influence an individual's attitude or behaviour.

3.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What is Abraham Maslow's theory of motivation?
2. How does a customer's perception affect his/her buying decisions?
3. What is selective retention?
4. What is cognitive learning?

Long-Answer Questions

1. Discuss the categories in which consumer behaviour can be divided.
2. Discuss the internal factors affecting consumer behaviour.
3. Explain the external factors that influence consumer behaviour.

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UNIT 4 MARKET SEGMENTATION

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Structure

4.0 Introduction
4.1 Objectives
4.2 Market Segmentation: Concept and Importance
 4.2.1 Bases for Market Segmentation
 4.2.2 Market Segmentation Strategies
4.3 Marketing Mix
4.4 Answers to Check Your Progress Questions
4.5 Summary
4.6 Key Words
4.7 Self Assessment Questions and Exercises
4.8 Further Readings

4.0 INTRODUCTION

In this unit, you will learn about segmentation, which is the process of dividing the market for a product or service into smaller groups of customers. Segmentation refers to the process of identifying clusters of customers who desire the same value proposition. There are various ways on the basis of which markets can be segmented. In the unit, you will gain an insight into segmentation variables, which are the criteria that are used for dividing a market into segments. The three broad groups of consumer segmentation criteria, i.e., Behavioural, Psychographic and Profile variables have also been discussed. Further on in the unit, market segmentation strategies will also be delved into. You will also study the concept of marketing mix and the four P's of marketing.

4.1 OBJECTIVES

After going through this unit, you will be able to:

- Discuss the concept of market segmentation
- Understand the bases for market segmentation
- Know about market segmentation strategies
- Understand marketing mix

4.2 MARKET SEGMENTATION: CONCEPT AND IMPORTANCE

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Segmentation is the process of dividing the market of a product or service in smaller groups of customers. The customers in one group should (i) buy the product for the same purpose, or (ii) use the product in the same way, or (iii) buy the product in the same way. But customers in one segment should be different from customers of any other segment in one or more of the above parameters. Segmentation of a market makes sense only when the company has to design a separate value proposition for each segment.

For example, sportspersons buy Nike shoes to enhance their performance, whereas the same shoes are used as casual shoes by other people. People drive their cars in different ways. Some are 'rough' drivers, while others take it easy on the road. The same grocery items are bought both at neighbourhood stores and at upscale stores.

Customer Value Proposition

Segmentation refers to the process of identifying clusters of customers who desire the same value proposition. Customer value proposition is a unique mix of product and service attributes, customer relations and corporate image that a company offers. Customer value proposition defines how the organization will differentiate itself from competitors to attract, retain and deepen relationships with target customers.

The value proposition helps an organization connect its internal processes to improve outcomes with its customers. An effective process of segmentation should result in a different set of internal processes for each segment, because only a unique set of internal processes will create a unique value proposition for the customer. These unique sets of internal processes will necessitate creation of separate organizations to serve each of the segments. If one common organization has to serve all the segments, the demands made on it would be so contradictory in nature that it will not be possible to serve even one of the segments effectively. This is especially true if the value propositions are vastly different. The process of segmentation will provide value only if the value propositions for various segments are very different from one other. The organization thus does not have any other alternative but to create separate organizations to ensure success in different segments that it is serving.

Non-Segmented Markets

Very few products or services can satisfy all the customers in a market. Not all customers want to buy the same product. Companies in some countries like India have often looked at their market as if it was one common market and fed it with

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one offering for decades. A decade back, Ambassador and Fiat and later Maruti 800 were the only cars on the Indian roads. But now, Mercedes Benz is being run as a taxi for the super-premium segment of the market. This indicates that marketers had been ignoring the potential for market segmentation for long. Now, a new car is launched in the Indian market once a month, sometimes by the same company. Similar stories abound in most categories of goods in most developing countries. In fact, one of the reasons for the relative backwardness of these countries can be lack of thorough process of segmentation.

Marketing not based on segmentation is essentially inefficient because some segments get over-engineered and advanced products giving far more value and features are offered than desired by the customers. On the other hand, other segments do not get the required value and features that customers want in the product. Nobody is happy in the process and the company ends up spending a lot of money unnecessarily. Whatever the state of the economy and market, distinct segments are always there in any market, because segments are based on differences in society, and differences in society are more pronounced in developing countries. Any marketing endeavour has to start with the process of segmenting the market, else it will be ineffective (due to underserving the market) and inefficient (because of overserving the market).

Uses of Segmentation

Different product and service offerings must be made to the diverse groups that typically comprise a market. Segmentation involves identification of groups of individuals or organizations that have significant implications for determination of a marketing strategy. Segmentation is dividing a diverse market into a number of smaller, more similar sub-markets. The objective is to identify groups of customers with similar requirements so that they can be served effectively while being of a sufficient size for the product to be supplied efficiently. It is the basis by which marketers understand their markets and develop strategies for serving their chosen customers better than competition.

Target market selection

Segmentation provides the basis for selection of target markets. A target market is a chosen segment of market which a company has decided to serve. Customers in the target market have similar characteristics and a single marketing mix can be used to serve them. Creative segmentation may result in the identification of new segments that are not being served presently and may form attractive targets.

Tailored marketing mix

Segmentation allows grouping of customers based on similarities (similar benefits). Marketers are able to understand in depth the requirements of segments and tailor a marketing mix that meets their needs. Segmentation promotes the idea of customer

satisfaction by viewing markets as diverse set of needs which must be understood and met by suppliers.

Differentiation

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By breaking a market into its constituent segments, a company may differentiate its offerings between segments, and within each segment it can differentiate its offering from competition. By creating a differential advantage over the competition, a company gives the customer a reason to buy from them rather than from competitors.

Opportunities and threats

Markets are rarely static. As customers become more affluent, they seek new experiences and develop new values, and new segments emerge. The company may spot a new underserved market segment and meet its needs better than competition. Similarly the neglect of a market segment can pose a threat if competition uses it as a gateway to market entry. Market segments may need to be protected by existing competitors even though it may not be profitable to serve them. They do this because they fear that the market segments they vacate might be used by new entrants to establish a foothold in the market.

Segmentation and market entry

The segmentation process can be used to enter new markets with entrenched competitors. Whatever the state of segmentation in the market, there is always the possibility of segmenting it further because howsoever stable a market may be, changes are always happening in it. So instead of launching copycat products and getting into direct confrontation with entrenched players, the entrant can creatively segment the market and locate an underserved one. It can focus its energies on serving this segment.

4.2.1 Bases for Market Segmentation

Markets can be segmented in many ways. Segmentation variables are the criteria that are used for dividing a market into segments. The chosen criteria should be good predictors of differences in buyer behaviour. There are three broad groups of consumer segmentation criteria: Behavioural, Psychographic and Profile variables.

- Behavioural variables, such as benefits sought from the product, and buying patterns, such as frequency and volume of purchase, may be considered as the fundamental basis.
- Psychographic variables are used when purchasing behaviour is correlated with the personality or lifestyle of consumers. Consumers with different personalities or lifestyles have varying product preferences and may respond differently to marketing mix offerings.

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- Profiling is not essentially a criterion for segmentation. After finding these differences, marketers need to describe the people who exhibit them. Profile variables such as socio-economic group or geographic location are valuable in describing the customers of the identified segment. For instance, a marketer may want to find out whether there are groups of people who value low calories in soft drinks. After identifying such people, the marketer attempts to profile them in terms of their age and socio-economic groupings. The objective of profiling is to identify and locate the customers so that they can be approached by marketers.

But in practice, segmentation may not follow this logical sequence. Often, profile variables will be identified first and then the segments so described will be examined to see if they show different behavioural responses. For instance, different age or income groups may be examined to see if they show different attitudes and requirements.

1. Behavioural Segmentation

Segmentation can be done on the basis of the purchase behaviour of customers. Product or brand purchases of customers can be tracked to identify differences in patterns of such purchases, which can be used a means of segmenting the market.

Benefits sought

People may seek different benefits from a product. Benefits sought in the fruit drink market are extra energy, vitamins, being natural, low calories and low price. There are brands targeting each segment. Benefit segmentation provides an understanding on why people buy in a market and helps in identification of opportunities as some of the benefits that customers seek may not be provided by the existing companies.

Benefit segmentation is fundamental because the objective of marketing is to provide customers with benefits which they value. Profile analysis can then be performed to identify types of people (age, gender) in each benefit segment so that targeting becomes easier.

Purchase occasion

Products like tyres may be purchased as a result of an emergency or as a routine unpressurized buy. Price sensitivity is likely to be lower when products are bought in emergency situations. Some products may be bought as gifts or self-purchases. Gift markets are concentrated at festivals period, while the advertising budget for these will be concentrated in the pre-festival period. Package designs may differ during this period, and special offers may also be introduced.

Purchase behaviour

Differences in purchase behaviour can be based on the time of purchase relative to the launch of the product or on patterns of purchase. When a new product is launched, a key task is to identify the innovator segment of the market. These people allow communication to be specifically targeted at them. Innovators are more likely to be willing to buy products soon after launch. Other segments of the market may need more time to assess the benefits and delay purchase until the innovators have taken the early risks of purchase.

Brand loyalty

The degree of brand loyalty can be the basis for segmenting customers. Some buyers are totally brand loyal, buying only one brand in a product group. Most buyers switch brands. Some may buy one particular brand on most occasions but also buy two or three other brands. Others might show no loyalty to any individual brand but switch brands on the basis of special offers to buy because they are variety seekers who look to buy a different brand each time. By profiling the characteristics of each group, a company can target each segment accordingly. By knowing the type of person (for instance, by age, socio-economic group, etc.) who is brand loyal, a company can channel persuasive appeals to defend this segment. By knowing the characteristics and shopping habits of offer seekers, sales promotions can be correctly targeted. In consumer durables market, customers can be divided into first-time buyers, replacement buyers and switchers from other brands.

Usage

Consumers can be segmented on the basis of heavy users, light users and non-users of a product category. Profiling of heavy users allow this group to receive most marketing attention because creating brand loyalty among these people will pay heavy dividends. Attacking the heavy user segment (20 per cent customers consuming 80 per cent of the product) can have drawbacks if all competitors are following this strategy. Analysing the light and non-user category provides insights that permit development of appeals that are not mimicked by competition as they will be concentrating on the heavy users.

Perception and beliefs

Perceptions and beliefs are strongly linked to behaviour. Consumers are grouped by identifying those people who view the products in a market in a similar way (perceptual segmentation) and have similar beliefs (belief segmentation). For instance, when it was launched, a product such as iPod by Apple made more sense to consumers who were passionate about music and also held extremely positive perceptions about the use of technology.

In the early 1990s, several Indian consumers held negative perceptions about microwaves. It was believed that Indian food rich in oil and spices cannot

be cooked in microwaves, and the waves emanating inside were harmful to health. Another segment that was more open to adapting microwaves consisted of those consumers who were well aware about the functioning of the microwave and were health conscious. They also sought the convenience of cooking faster and cooking other types of cuisines. For these purposes, a microwave was found to be suitable by them. Therefore, marketers initially focused on the second segment.

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2. Psychographic Segmentation

Another means of segmentation involves analysing the psychological make-up of customers to unearth deeper motivations for purchasing specific products or brands. This often involves studying customers' values, opinions, activities and lifestyles to establish patterns, which can be used as a basis for clustering similar customers.

Lifestyle

A company groups people according to their way of living as reflected in their activities, interests and opinions. The company identifies groups of people with similar patterns of living. The question that arises in this type of segmentation is whether general lifestyle patterns are predictive of purchasing behaviour in specific markets. The company will relate a brand to a particular lifestyle.

Personality

In some product categories, there is relationship between the brand personality and the personality of the buyer. Buyer and brand personalities are likely to match where brand choice is a direct manifestation of personal values, but for most FMCG goods, people buy a repertoire of goods. Personality and lifestyle segmentation will work best when brand choice is a reflection of self-expression, i.e., the brand becomes a badge that makes public an aspect of personality. Successful personality-based segmentation is found in categories such as cosmetics, alcoholic drinks and cigarettes.

3. Profile Segmentation

Even if behaviour and/or psychographic segmentation have distinguished between buyer preferences, there is need to analyse the resulting segments in terms of profile variables such as age and socio-economic group. The segments emerging from behavioural and psychographic segmentation will have to be profiled in terms of age, occupation, socio-economic status, place of residence, gender, etc. Profiling will help companies in identifying the segments and focusing their attention on them.

Demographic variables

Age – Age is used to segment many consumer markets, like food and clothing.

Gender – Differing tastes and customs between men and women are reflected in specialist products aimed at these market segments.

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Life cycle – Disposable income and purchase requirement vary according to life cycle stage (young singles versus married). Young couples without children may be a prime target for consumer durables. The use of life cycle analysis gives a better precision in segmenting markets than age because family responsibilities and presence of children have a greater bearing on what people buy than age.

Socio-economic variables

Social class as a predictor of buyer behaviour has been open to question. Many people who hold similar occupation have dissimilar lifestyles and purchasing patterns.

Educational qualification and income are also used as variables for segmentation.

Geographic variables

A marketer can use pure geographic segmentation or a hybrid of geographic and demographic variables to segment the market.

Geographic segmentation is useful when there are geographic locational differences in consumption patterns and preferences. Variations in food preferences may form the basis of geographic segmentation.

Both geographic and demographic variables help a marketer to point to their segments more precisely.

Combining Segmentation Variables

Often a combination of variables will be used to identify groups of consumers that respond in the same way to marketing mix strategies. For instance, lifecycle, occupation and income can be combined. Flexibility and creativity are hallmarks of effective segmentation analysis.

4.2.2 Market Segmentation Strategies

Let us discuss some target market strategies.

Target Market Strategies

When selecting their target markets, companies have to make a choice, whether they are going to be focused on one or few segments or going to cater to the mass market. The choice that companies make at this stage will determine their marketing mix and positioning plank.

Undifferentiated targeting

A company using an undifferentiated targeting strategy essentially adopts a mass market philosophy. It views the market as one big market with no individual segments. The company uses one marketing mix for the entire market. The company

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assumes that individual customers have similar needs that can be met with a common marketing mix. The first company in an industry normally uses an undifferentiated targeting strategy. There is no competition at this stage and the company does not feel the need to tailor marketing mixes to the needs of market segments. Since there is no alternate offering, customers have to buy the pioneer's product. Ford's Model T is a classic example of an undifferentiated targeting strategy. Companies marketing commodity products like sugar also follow this strategy.

Companies following undifferentiated targeting strategies save on production and marketing costs. Since only one product is produced, the company achieves economies of mass production. Marketing costs are also lower because only one product has to be promoted and there is a single channel of distribution.

But undifferentiated targeting strategy is hardly ever a well-considered strategy. Companies adopting this strategy have either been blissfully ignorant about differences among customers or arrogant enough to believe that their product will live up to the expectations of all customers, till focused competitors invade the market with more appropriate products for different segments. Therefore, companies following this strategy will be susceptible to incursions from competitors who design their marketing mixes specifically for smaller segments.

Concentrated targeting

A company selects one segment to serve. It understands the needs and motives of the segment's customers and designs a specialized marketing mix. Companies have discovered that concentrating resources and meeting the needs of a narrowly defined market segment is more profitable than spreading resources over several different segments. Starbucks became successful by focusing exclusively on customers who wanted gourmet coffee products.

Companies following concentrated targeting strategies are obviously putting all their eggs in one basket. If their chosen segment became unprofitable or shrunk in size, the companies would be in problem. Such companies also face problems when they want to move to some other segments, especially when they have been serving a segment for a long time. They become so strongly associated with serving a segment with a particular type of product or service that the customers of other segments find it very difficult to associate with them. They believe that the company can serve only that particular segment. Companies which start with concentrated targeting strategy but nurse ambitions to serve more segments, should make early and periodic forays into other segments. The idea is to avoid being labelled as a company which exclusively serves a particular segment. The association with one particular segment should not be allowed to become so strong that customers cannot imagine the company doing something else.

From the car makers' perspective, Mercedes offers premium cars for the upper segment of the market only. It does not offer cars for the middle and lower

segments. But, Mercedes segments the premium segment for its own purpose and offers different cars for its different premium segments.

Multi-segment targeting

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A company following multi-segment targeting strategy serves two or more well-defined segments and develops a distinct marketing mix for each one of them. Separate brands are developed to serve each of the segments by most companies following this strategy. It is the most sought-after target market strategy because the strategy has the potential to generate sales volume, higher profits, larger market share and economies of scale in manufacturing and marketing. But the strategy involves greater product design, production, promotion, inventory, marketing research and management costs. Another potential cost is cannibalization, which occurs when sales of a new product cut into the sales of a firm's existing products. Before deciding to use this strategy, a company should compare the benefits and costs of multi-segment targeting to those of undifferentiated and concentrated targeting.

The car market is most clearly segmented. There are segments for small cars, luxury cars, sports utility vehicles, etc. Most car makers, such as General Motors, Ford, Toyota, Honda and others, offer cars for all the segments. Though Toyota entered the US market with small cars, it eventually chose to operate in most of the segments

4.3 MARKETING MIX

We already studied about marketing mix previously. To recapitulate, Marketing mix is not just concerned with the product but also its price, promotional techniques and the manner in which it is delivered to the customer. A company develops its marketing mix after studying the customers and their needs. To prepare the right mix of product, price, place and promotion, the company has to first understand what its customers want. The elements of the marketing mix are intricately and sensitively related to each other. The marketing mix is either good or bad as a whole. All the elements have to reinforce each other to enhance the experience of the customer. When a change is proposed to be made in one of the elements, it has to be checked whether the changed element still fits with and reinforces other elements, or whether it started contradicting other elements, making the marketing mix less effective in serving customers. It is essential for managers to coordinate, control and manage the 4Ps, that is, product, price, promotion and place, in a manner that will satisfy the needs of the customers in a better way than competitors. The marketing mix-related decisions are very important to the marketing concept.

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Check Your Progress

1. Why is marketing not based on segmentation considered to be essentially inefficient?
2. How does market segmentation promote the idea of customer satisfaction?
3. Name the market segmentation which involves studying customers' values, opinions, activities and lifestyles to establish patterns, which is used as a basis for clustering similar customers.

4.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Marketing not based on segmentation is essentially inefficient because some segments get over-engineered and advanced products giving far more value and features are offered than desired by the customers, whereas other segments do not get the required value and features that customers want in the product
2. Segmentation promotes the idea of customer satisfaction by viewing markets as diverse set of needs which must be understood and met by suppliers.
3. Psychographic segmentation often involves studying customers' values, opinions, activities and lifestyles to establish patterns, which can be used as a basis for clustering similar customers.

4.5 SUMMARY

- Segmentation is the process of dividing the market of a product or service in smaller groups of customers. The customers in one group should (i) buy the product for the same purpose, or (ii) use the product in the same way, or (iii) buy the product in the same way. But customers in one segment should be different from customers of any other segment in one or more of the above parameters.
- Customer value proposition is a unique mix of product and service attributes, customer relations and corporate image that a company offers. Customer value proposition defines
- A target market is a group of people or organizations for which a company designs, implements and maintains a marketing mix intended to meet the needs of that group, resulting in mutually beneficial and satisfying exchanges.

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- Markets can be segmented in many ways. Segmentation variables are the criteria that are used for dividing a market into segments. The chosen criteria should be good predictors of differences in buyer behaviour. There are three broad groups of consumer segmentation criteria: Behavioural, Psychographic and Profile variables.
- Marketing mix is developed after understanding the needs of the customer. The right mix of product, price, place and promotion is developed after understanding what the customers want.

4.6 KEY WORDS

- **Target market**: A target market is a chosen segment of market which a company has decided to serve.
- **Segmentation**: It is the process of dividing the market of a product or service in smaller groups of customers.
- **Customer value proposition**: It defines how the organization will differentiate itself from competitors to attract, retain and deepen relationships with target customers.

4.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What is multi-segment targeting?
2. Write a short note on profile segmentation.
3. What is marketing mix?
4. What are the competitive factors affecting market segmentation?

Long-Answer Questions

1. Explain the uses of market segmentation.
2. Describe the different bases for segmenting consumer markets.
3. Evaluate market segments and target market selection.

4.8 FURTHER READINGS

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BLOCK II
FEATURES OF MARKETING

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UNIT 5 PRODUCT PLANNING AND DEVELOPMENT

Structure

5.0 Introduction
5.1 Objectives
5.2 Concept of Product and Classification
5.3 Consumer and Industrial Goods
5.4 Product Planning and Development: A Detailed Analysis
5.5 Answers to Check Your Progress Questions
5.6 Summary
5.7 Key Words
5.8 Self Assessment Questions and Exercises
5.9 Further Readings

5.0 INTRODUCTION

Markets and products are the foundation on which the whole study of marketing is based. In this unit, you will learn about the concept of product and its classification into consumer goods and industrial goods. There are several types of markets including basic goods markets, intermediary goods markets, consumer goods markets, etc. Further on in the unit, the product development process will be discussed. The product development process is the first step in product or service development and involves a numerous other measures that needs to be taken before the product is released the market. A company needs a new product development strategy before anything else. After the strategy is set, the idea will be screened and tested before it is introduced in the market. You will be able to understand this process after going through the unit.

5.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand the concept of product and its classifications
- Describe consumer and industrial goods
- Analyse the product development process

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5.2 CONCEPT OF PRODUCT AND CLASSIFICATION

Product is the most important tool in the marketing mix. Without a product, there can be no marketing. The buyer purchases a product only because it satisfies his needs and desires. Thus, the product is a bundle of potential utility and the customer is more interested in the benefits that he gets from the product rather than the physical characteristics of the product.

There are two essential elements of a business:

1. Products (goods and services)
2. Markets (customers: buyers and sellers)

Without these two essential elements, there can be no marketing. Transfer of ownership cannot take place unless there are both, a market and a product. Markets and products are the foundation on which the whole study of marketing is based.

Meaning of Product

In simple terms, a product is something that can be offered in the market to satisfy a want or a need. It can also be described as a set of tangible and intangible features, such as colour, packaging, warranty, reputation and prestige of the manufacturer and retailer, service facility, etc. The buyer usually buys a product, based on these features, to meet his needs and requirements. A product is a bundle of utilities. People buy products for their utilities–real or perceived.

Product Classification

The two major categories of goods are (i) consumer goods and (ii) industrial goods. This classification is traditional and based on the purpose for which the goods are primarily used. Equipment and machinery used in factories are industrial goods and similarly, soaps, toothpastes, sweets and milk used in domestic households are consumer goods. However, these are not watertight compartments. For example, writing paper, when used for business or commercial purposes, comes under the category of industrial goods. However, when it is used by a student for writing, it becomes a consumer good. In spite of this, classification is necessary because buying motive differs from buyer to buyer.

The two types of goods are further sub-divided into various categories as shown in Figure 5.1

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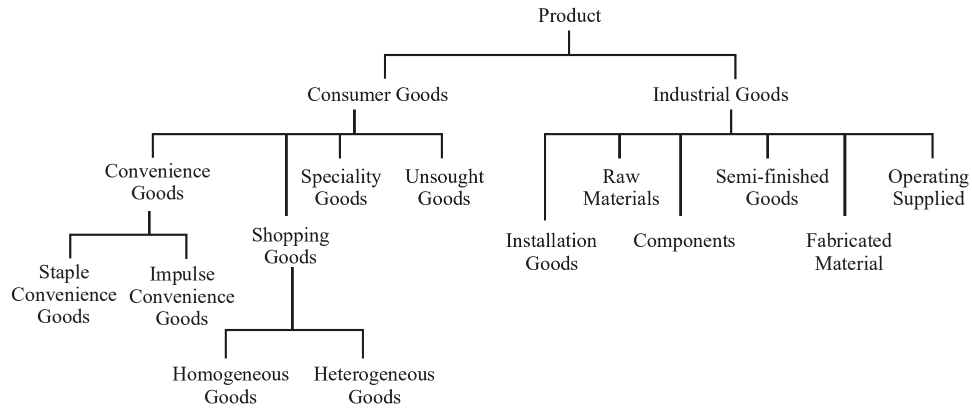


Fig. 5.1 Product Classification

5.3 CONSUMER AND INDUSTRIAL GOODS

Products can be defined as either business (industrial) products or consumer products depending on the buyer's intentions. The main distinction between the two types of products is their intended use. Business products are used to manufacture other goods or services, to facilitate an organization's operations or to resell to other customers. Consumer products are bought to satisfy an individual's personal wants. Sometimes, a product can be classified both as a business or consumer product depending on its intended use. For instance, computers are bought by customers for their own use and they are also bought by organizations to facilitate their operations. Business and consumer products are marketed differently. They are marketed to different target markets and may use different distribution, promotion and pricing strategies.

What is marketed?

Marketing profile are involved in marketing ten types of entities. These include goods, services, experiences, events, persons, places, properties, organization, information and ideas.

Markets on the basis of products in trade

The various markets on the basis of products in trade are discussed as follows:

Basic goods market

Goods such as steel, cement and chemicals are very basic requirements for the industrial and infrastructural development of a country. These goods are called basic goods. The growth and development of the basic goods market depends on the development of the consumer goods market. Since basic goods derive demand from the demand of goods of the consumer market, the demand for these goods is said to be derived demand.

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Intermediary goods market

Machines, machine tools, equipment, components and spares constitute the intermediary goods market. For instance, a car manufacturer purchases tyres, gears, engine, upholstery, etc., from his suppliers, who comprise the intermediary market.

Consumer goods markets

Consumer products can be classified according to how much effort is normally exerted to buy them. The classifications are as follows:

- *Convenience products:* Convenience goods are inexpensive products requiring little shopping effort. Customers do not shop extensively for such a product. Customers buy convenience products regularly without much planning. Customers are aware of brand names of the popular convenience products. These products are very intensively distributed. Soft drinks, chocolates, deodorants, etc., are common convenience products. These products are also called fast moving consumer goods (FMCG).
- *Shopping products:* These are costlier than convenience products and can be bought at select retail stores only. Customers purchase these products only after comparing the style, price, features, and advantages of several brands at different stores. Customers spend time and effort to select the right product for themselves. Some shopping products like televisions and refrigerators are basically similar and customers buy the lowest-priced brand that has the desired features and benefits. Some other shopping products like clothing, furniture, housing and educational institutes are different because the prices, quality and features vary from one brand to the other. Customers find it difficult to compare such products on the objective criteria and the decision to buy one particular brand is very personal and is based on the individual assessment of the merits of the brand. These are also called durable goods.
- *Specialty products:* These are products for which customers have strong brand preference and are very fussy about them. They will travel long distances to locate their favourite brand or outlet. They rarely accept substitutes. Designer watches, luxury cars, high-end restaurants, etc., are typical speciality products. Such products have an exclusive image, and companies marketing these products use specially designed, status-conscious advertising to maintain its exclusive image. Only select outlets in a particular region distribute these products. Brand names are very important selection criteria for speciality products.
- *Unsought products:* These products are unknown to the potential customers or are known products that customers do not actively seek. Unsought products are needed by customers but they do not like to think about them and do not want to spend money on them. Such products, like insurance, require aggressive personal selling and persuasive advertising. Customers will not initiate purchase of such items and the companies must reach them directly through salespersons or direct mail.

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Markets on the basis of magnitude of selling

Wholesale and retail markets vary in the quantum of goods sold. Wholesale markets are less in number and sell in large quantities. Goods are sold to retailers or other intermediaries in the distribution chain. Retail markets are large in number and usually sell to the end-consumers who buy lesser quantities, often a single unit of a product.

Markets on the basis of geographical coverage

Markets can be classified on the basis of geographical coverage—local markets (in a city or town), regional market (in a state or a few states), national market (in a country) and international markets (more than one country).

Markets on the basis of time period

Markets can be short-term markets (money markets), weekly markets (a village shanty) and long-term seasonal markets (markets for agricultural products).

Government market

Government market comprises all levels of government agencies that buy goods and services that facilitate the government functioning.

Although a wide range of products such as military equipment, clothing, vehicles, office supplies, food, etc., form part of government purchases, it is not very easy to sell to this market. Selling to the government market involves a lot of monetary limitations, paperwork and bureaucratic processes/barriers. It also requires a lot of awareness related to specific political sensitivities.

Check Your Progress

1. What are the two essential elements of a business?
2. What are the two major categories of goods?

5.4 PRODUCT PLANNING AND DEVELOPMENT: A DETAILED ANALYSIS

Product development process is expensive, risky and time consuming. Though world-shaping innovations have emerged from the 'garages' and will continue to do so, companies cannot depend solely on flashes of brilliance and inspiration to create their next blockbuster. In the absence of any better method to bring out new products, a formal process with review points, clear new product goals, and strong marketing orientations underlying the process is being relied upon by companies to achieve greater success. An eight-step new product development process consists of new product strategy, idea generation, screening, concept testing, business analysis, product development, market testing and commercialization. New products pass through every stage at varying speeds.

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New Product Strategy

Senior management should provide vision and priorities for new product development. It should provide guidelines about which product or market the company is interested in serving. It has to provide a focus for the areas in which idea generation should take place. By outlining their objectives—for instance, market share, profitability, or technological leadership for new products—the senior management can provide indicators for screening criteria that should be used to evaluate these ideas.

A development team is likely to achieve better results if it concentrates its resources on a few projects, instead of taking shots at anything that might work. Since the outcome of new product development process is unpredictable, a company might believe that it is taking a risk by working only on a few new ideas. However unpredictable the new product development process may be, chances of success will definitely improve if the team knows precisely what it wants to achieve from the process, puts its best people in the project, and has enough resources to commit to the project. In the following sections of this unit, you will learn the important aspects of product planning and development in detail.

Generation of Ideas

Developing an innovative culture that kindles imagination is a prerequisite. Sources of new product ideas can be internal to the company. Scientists, engineers, marketers, salespeople, designers, etc., can be rich sources of new ideas. Companies use brainstorming session to stimulate creation of ideas and financial incentives to persuade people to ideate. Though anyone can come up with a brilliant idea, a company can work systematically to generate great ideas. An organization can adhere to the following practices:

- A company can look outside markets that are currently being served. It may not be manufacturing the exact product that the new market requires, but it may realize that it has the competence to serve the new market. When a company scrutinizes its core competences, it may discover that these factors may be combined in a new way to serve a new market. Apart from people who specialize in various technologies, it is important that a company has a few market-savvy people who understand all its technologies. These people will combine technologies to serve customer needs in interesting ways.
- For too long, companies have viewed the market as a set of customer needs and the product functions to serve these needs. But they should begin to ask as to why the product has to be like that. Can customer needs be satisfied with some other product form? Companies will realize that their products have shaped consumer expectations about the appropriate solution to their needs but if the companies become bold and persistent, customers will accept new solutions to their needs.
- A company should question conventional price and performance relationships. It should explore the possibility of providing the same value at

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lesser price or try to make the customers pay more by serving their needs in a new or better way. A rigorous market research may reveal more sophistication in customers' needs that the company can serve with a novel product. A company should reject the idea that an existing product is the only starting point for new product development. The greatest hindrance to the development of novel products is the existing product. Developers keep making mental references to the existing product—how their new product will be different or better than the existing ones. Having people from outside the industry can help the development team in distancing themselves from the existing product. A development team comprising solely of outsiders can be tried if the company desperately wants a novel product.

- A company can try to lead customers by imagining unarticulated needs rather than simply following them. The developers need to have an in-depth talk with customers and observe closely a market's sophisticated and demanding customers. However, an innovation need not always be more sophisticated than the current products. Customers might be using sophisticated products because they do not have a choice. However, they might be actually looking for simpler solutions. In quite a few markets, companies have to reduce the sophistication of their products. Sometimes, customers need to acquire few skills to use sophisticated products. They would be happier using a simpler product at a lesser price.
- A company should examine its competitors' products at frequent intervals. Though copying competitors' products may not inspire many developers, a company can use the competitors' products to identify features and benefits that its own product lacks.

  If a competitor's product is more advanced or sophisticated, the company can use the competitor's product as a base and develop the product further.
- Retailers have a direct relation to customers and they have a first-hand hearing of the customer's feedback. The experiences of retailers can provide useful information about customers' experience with the company's offerings. A company should be in constant interaction with retailers so that they are able to glean customers' opinions about their product. Retailers are also in contact with the customers of competitors' products and such information have be very useful in developing ideas.
- Customers are the original sources of new product ideas. Lead users, who are the most sophisticated users of a product, are excellent sources of ideas for new products, as they are most likely to encounter new problems due to the increased sophistication of their needs. Business customers, who are innovators and market leaders in their own marketplace, are sources of new product ideas, as they have advanced needs and are likely to face problems before other product users. But companies who focus on lead users may develop products which may be too sophisticated for the average

product user. It may contain features and benefits that the average customer may not need, but will have to pay for.

- Customers can give feedback about the products that they are familiar with, and these inputs can be used to drive innovations which will be incremental in nature. But for breakthrough innovations, ideas must come from other sources, such as the R&D (research and development) team. This is because the customer cannot talk beyond his realm of experience. Therefore, if a company wants to launch a radical innovation, it has to look beyond existing customers as a source of idea.

Idea Screening

Ideas are screened to evaluate their commercial worth. At this stage, the company needs to ascertain whether the new products will fit in with the company's strategy and available resource. Simultaneously, the company also evaluates the market potential for the new product by evaluating criteria, such as projected sales, profit potential, extent of competition and return on investments. Unique designs that lower costs or give performance advantages are also considered.

Though it is difficult to forecast the success of an idea accurately at this stage, the process helps the company to check if the idea is in alignment with the company's objectives and competencies, and whether the idea has reasonable chances of success. The process helps the company in weaning fanciful ideas. But sometimes, at this stage, such fanciful ideas may entice the management and the idea generator may get permission to go ahead with it.

Market Testing

So far in the product development process, potential customers have been asked if they intend to buy the product but have never been placed in the position of having to pay for it. Now customers are forced to vote with their money. The company seeks to have a limited launch for the product in the marketplace so that it can gauge the customer response in true test conditions. The feedback obtained from this launch guides the company's decision to either continue with the large scale commercialization of the project or abandon it. Ideally, the feedback that is obtained from the test sample should be as realistic as possible, i.e., the profile of the sample of respondents should closely resemble the profile of prospective customers in the actual marketplace, and they should be buying the product from a realistic retail setup as they would actually do. For instance, a sample of customers may be recruited to buy their groceries from a mobile supermarket which visits them once a week. They are provided with magazines in which advertisements for the new products appear. Key success indicators such as penetration (the proportion of customers who buy the new product at least once) and repeat purchase (the rate at which purchasers buy again) can be found out. If the penetration is high but the repeat purchase is low, it is important for the company to ascertain the reasons for it. In case of any problems pertaining to specific aspects of the

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marketing mix, such as price points, product features, packaging, or availability, the company can take corrective measures. But if the company finds out that corrections are now impossible, or that the cost involved in remedial actions would outweigh the benefits, it can decide to withdraw the product from the market.

Test marketing involves the launch of a new product in one or few geographical areas chosen to be representing its intended market. The product is positioned and promoted the same way as it would be done in case of a full-scale launch. The new product is made available in select distribution outlets so that the real-time response of customers in terms of parameters such as purchase, the amount of time spent in evaluation, or repeat purchase can be tracked vis-à-vis competing products. As the characteristics and composition of customers in the test market resemble the characteristics of customers in the entire target market, the results of test marketing can be extrapolated for the entire market. Marketers take decisions about the modification of some part of the marketing mix, and even about the continuation of the product launch according to the results of test marketing. Test towns and areas may not be representative of the national market and thus sales projections may be inaccurate. Competitors may invalidate the test market by giving distribution incentives to stock their product, thereby denying the new product shelf space. Test markets need to be long enough to measure the repeat purchase rate for the product. This can mean a delay in national launch by several months and years. In the meantime more aggressive competitors can launch a rival product nationally and therefore gain pioneer advantage. Getting the co-operation of distributors is important. Distributors may not want to co-operate for conducting test marketing, or they may charge exorbitant fees for the activity.

The most important rationale for test marketing is that the obtained results help the company to concretize its marketing strategies for the full-scale launch of the product. This is undoubtedly more efficient than making costly blunders after the full-scale product launch. A company may also choose to test several combinations of the variables in the marketing mix to ascertain the optimal one. This process is used very often for fast moving customer goods (FMCG) products where a test market is typically conducted in a few cities in a country. For very expensive equipment, it is impractical. Globally, when a company does a phased product launch, it can apply the lessons learnt from one country market in another country where the product, consumer and market characteristics may bear close resemblance.

Check Your Progress

3. How can a development team achieve better results?
4. What is the greatest hindrance to the development of novel products?
5. What is basic goods market?
6. What are convenience products?
7. Why is it difficult to sell goods and services to the government market?

5.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

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1. Two essential elements of a business are products and markets.
2. The two major categories of goods are consumer goods and industrial goods. This classification is traditional and based on the purpose for which the goods are primarily used. Sometimes, a product can be classified both as a business or consumer product depending on its intended use.
3. A development team is likely to achieve better results if it concentrates its resources on a few projects, instead of taking shots at anything that might work.
4. The greatest hindrance to the development of novel products is the existing product.
5. Goods such as steel, cement, chemicals are basic for the industrial and infrastructural development of the country. These goods are called basic goods. The market selling these goods is called basic goods markets.
6. Convenience goods are inexpensive products requiring little shopping effort. Consumers do not shop extensively for these products. Customers buy convenience goods regularly and without much planning.
7. Selling to the government market is difficult as it involves a lot of monetary limitations, paperwork and bureaucratic processes/barriers. It also requires a lot of awareness related to specific political sensitivities.

5.6 SUMMARY

- Product is the most important element of the marketing mix as without a product, there would be no marketing.
- There are two essential elements of a business:
    1. Products (goods and services)
    2. Markets (customers: buyers and sellers)
- In simple terms, a product is something that can be offered in the market to satisfy a want or a need.
- The two major categories of goods are (i) consumer goods and (ii) industrial goods. The main distinction between the two types of products is their intended use.
- The various markets on the basis of products in trade are basic goods market, intermediary goods market and consumer goods markets. The consumer goods market can further be classified into convenience products, shopping products, specialty products and unsought products.

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- Markets can also be divided on the basis of the magnitude of selling, geographical coverage, and time period.
- The product development process is expensive, risky and time consuming. A development team is likely to get better results if concentrates its resources on few projects instead of trying out everything.
- Screening of ideas are done to evaluate its commercial worth. The company evaluates the market potential of the new product in this step.
- Test marketing involves the launch of a new product in select distribution outlets. The results help the company develop its marketing strategies for the full-scale launch of the product.

5.7 KEY WORDS

- **Convenience products:** These are inexpensive products which require limited shopping effort.
- **Idea Generation:** It is the process of creating, developing, and communicating ideas which are abstract, concrete, or visual.
- **Market Testing:** It means to test multiple marketing scenarios and select the most promising for expansion.

5.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the two essential elements of a business?
2. What is the difference between consumer goods and industrial goods?
3. State the classifications of consumer goods markets.
4. State the eight-step new product development process.
5. What is the role of the senior management in the product development process?

Long-Answer Questions

1. Analyse the significance of idea generation and screening.
2. Discuss the concept of market testing.
3. Explain in detail the product development process.

5.9 FURTHER READINGS

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UNIT 6 PRODUCT POSITIONING AND PACKAGING

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Structure

6.0 Introduction
6.1 Objectives
6.2 Product Positioning
6.3 Packaging: Role and Functions
6.4 Brand Name
  6.4.1 Trademark
  6.4.2 After-Sales Service
6.5 Product Life Cycle Concept
6.6 Answers to Check Your Progress Questions
6.7 Summary
6.8 Key Words
6.9 Self Assessment Questions and Exercises
6.10 Further Readings

6.0 INTRODUCTION

Product positioning is an important step in the marketing of a product. It aims at creating and maintaining a distinctive place in the market for the company's products. Not only should the offer be different from the competitors, but it should also fulfil the needs of the customers it is targeting. In this unit, you will also learn about the important function of packaging. While making the product easier and safer to use, packaging also helps in promotion of the product.

Branding is another important step in establishing the company in the marketplace. Most companies use a trademark to identify itself in the eyes of its stakeholders. In this unit, you will also learn about the concept of product life cycle which is central to the product marketing strategy. The issues related to it will also be discussed in detail.

6.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand product positioning
- Describe the role and function of packaging
- Understand the concept of branding and trademark
- Explain the product life cycle concept

6.2 PRODUCT POSITIONING

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A company has to select the target market in which it will offer its products. It will have to determine the differential value that it will provide to customers to make the product attractive to them and communicate to customers the differential value it intends to provide to them.

Target Market

Where does the company want to compete? The company has to select the segments to which it will offer its products. It is very tempting to select the largest segment or the most profitable segment. The company should possess special competencies and resources to serve its target market which means that before a company can zero on to its target markets, it should conduct a comprehensive research of requirements of customers of various segments, and an honest audit of its own resources and competencies. Quite often a company believes that it will be able to develop or acquire the required resources and competencies after identifying a target market. But it is never easy. A company should have a clear road map of how it will acquire or develop the required competencies and resources.

Differential Advantage

How does the company want to compete? The company has to provide an answer to 'Why would a customer of the target market want to buy my product and not those of competitors?' A company which is able to furnish an unambiguous answer has a clear positioning strategy.

Communicating the Differential Advantage to Customers

A company may have created the appropriate offering for its target market but its customers should know that it has. Most companies are content with using advertisements to convey their positioning. Advertisements have become glossier and most advertising agencies do not understand the positioning of their client company empathically enough to be able to convey it in the ads that they make. However, even when an honest attempt is made to convey a company's positioning through advertising, it cannot be done due to the short and impersonal pitch of advertisements. A company has to use all promotional means like publicity, sponsorship, personal selling, and direct mails to inundate customers with messages of its positioning. Of course, these messages emanating from various sources should be consistent. In addition, every contact between the customers and the company should be so structured that its positioning is unambiguously conveyed. The first products should reach customers who are likely to be very exuberant upon finding a good product. Word-of-mouth promotion will ultimately cement the company's positioning in the customers' mind.

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The objective of positioning is to create and maintain a distinctive place in the market for the company's products. Target market selection is a part of positioning. But to compete successfully in a target market involves providing customers with a differential advantage. This involves giving customers something better than what the competitors are offering.

Positioning, Differentiation and Marketing Mix

A company's offer has to be distinct from those of its competitors and should fulfil the requirements of the customers of its target markets. A company's positioning is the result of whatever the company does. Marketing mix is the most tangible and the most flexible tool to create the desired positioning. Companies use their marketing mix to create something specific and special for the customer.

Product Differentiation

Product differentiation results from added features which give customers benefits that rivals cannot match. Before adding features, a company should thoroughly research the need for the particular feature among customers in the intended target market. Companies keep on adding new features just because their competitors are offering them. Sometimes deletion of features and benefits from a product may be a very effective differentiation because customers never really wanted these benefits.

Adding the same features as competitors may make the products of a company more acceptable among customers, though it may end up introducing similar products that does not result in any differential advantage. This strategy of matching features and benefits will result in product parity, with no company providing any compelling reasons to the customer for buying its product. In such industries, customers will buy on the basis of price and competitors will be forced to cut prices to grab customers from each other. The profit of every company will go down. Companies will not have the ability to differentiate their product as they will not have enough resources due to their dwindling profit margins. The only way out of this mess is that companies should pick up courage, arrange resources and start differentiating their products from each other. Price based competition should be avoided.

Most of the time, in most categories of goods, consumers get products with features that they could do without and are needlessly paying for them. Most products can be made more suitable for their target markets by deletion of certain features. Nokia has introduced a stripped down version of the cellular phone for the entry level customer in India. The phone is a contrast to the ones that offer internet usage, m-commerce, camera etc. It serves the basic purpose of mobile connectivity. Many customers are realizing that they do not need what they have bought and are switching over to these simpler phones. This phenomenon is likely to be repeated in many categories of goods once simpler options are available at lesser prices.

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Promotional Differentiation

Promotional differentiation arises from unique, valued images created by advertising or superior services provided by salespeople. People in different target markets are likely to react differently to certain stimuli like emotions, images, storylines, celebrities etc. It is important to identify the stimuli which will evoke the desired response in members of the target market. It may be an extremely intricate task but it is imperative to find out whether the members prefer emotional or rational messages, humour or sedate messages, narratives or musicals, etc. Unless the company has determined the choice of the consumers on all variables that affect an advertisement, it cannot create an advertisement which is suitable for members of the target market but is unsuitable for any other target market. Sadly, most advertisements look and sound similar and are not suitable for any particular target market and do not elicit the desired response.

Similarly, different target markets will require different types of sales presentations, persuasions and relationships with the seller.

Distribution Differentiation

Distribution differentiation arises by making the buy situation more convenient for customers. Different target markets will require different activities to make the buying situation more convenient for them. Customers hard pressed for time have welcomed introduction of automated teller machines. However, some customers would still prefer to visit the bank to conduct transactions which can easily be carried out through the ATMs. Cans of carbonated soft drinks from vending machines are finding favour with youngsters from the upper strata in India who believe that this is the original Coke or Pepsi.

Different distribution channels like telemarketing, direct mails, internet marketing and personal selling are being used to lure customers of the same target market resulting in irritability among customers, duplication of efforts and high costs. This is particularly true of credit card markets, internet service providers etc. The adequate strategy would be to identify the most suitable distribution channel for each target market and pursue it.

Sometimes customers would like to compare different brands before deciding on one. This is particularly true for high priced items like cars which are mostly sold from one-brand stores. The company has to make it convenient for customers to compare brands. It would be a good idea to locate stores of different brands near each other or permit their brands to be sold in multiple-brand stores. Customers will inevitably compare, and so a company might as well make it convenient for them and let it happen in his proximity so that it can exert some influence over the choice.

For products that are bought on impulse, it is important to make it available widely as the consumer will buy the next preferred brand if his desired brand is not available. It is imperative for the company to understand that in the same product

category, members of different target markets will buy differently. Therefore, it is important to tailor the distribution arrangements according to the way the target market shops.

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Price Differentiation

Price differentiation involves estimating the price sensitivity of the target market, and offering relevant values on the basis of such an estimation. A target market can be totally price insensitive and desire value of the highest order. These values can be exclusivity, sheer luxury, symbol of status or royalty. They essentially signify belongingness to an exclusive club and are often accompanied with the owner's passionate attachment to the product.

A target market can be highly price sensitive and will go for mere functionality of the product if it finds the price of available products high. Customers of this target market yearn for better products but will not be willing to pay a price for it. If a company offers a better product at the existing price level, such customers would buy it.

A third type of target market is emerging. This market's price sensitivity is moderate and is willing to pay higher price for more features and benefits. This would be a big market in the future because income and aspiration levels of customers are rising throughout the world.

Most segments desire the same values. What differentiates them is the manifestation of these values. For instance, luxury is a desirable value for all the above segments. But the way luxury is manifested, say, for the purchase of a product category such as automobiles, presents vast contrasts.

Sine Qua Non of Positioning

Positioning is not an abstract art. It is important for firms to understand and implement a few fundamental do's and don'ts to attain successful positioning.

- The positioning of a corporate or a brand should be clear and precise. The unique proposition made to the customer should be brief and catchy. Instead of overloading customers with a maze of complicated information, companies should be precise and concise.
- A company cannot hope to reach out to the entire market with one positioning appeal. The target audience should be determined, and the positioning appeal and message should be tailored to it.
- The product or service should be set apart from what competitors are offering. If the product or service being offered by the company is not better than or different from that of competition, why should customers buy it? It is extremely important to state that one compelling reason why the company's product is the best for the target customers.

- The positioning statement should clearly reflect what the organization stands for and what it is about. Its values, intent and offering should be clear from the positioning statement.
- Positioning should address the felt needs of the customer. Customers should be told as to how the company's product will fulfil these needs. Such benefits should be stressed in the positioning statement. These needs should be specific, measurable and something that customers really want. Instead of being vague that the company offers a lot of variety or selection, a company should say that it has 25 different models, and five colours in each model.
- Positioning appeals should be specific. One unique value proposition that customers desire the most must be present in the product.
- The company should also be able to deliver what it promises to the customer as its success depends on its credibility.

6.3 PACKAGING: ROLE AND FUNCTIONS

Packages have always served a practical function, that is, they hold the contents together and protect goods as they move through the distribution channel. Packaging is also a container for promoting the product and making it easier and safer to use.

Packaging functions

The critical functions of packaging include containing, protecting and promoting products as well as facilitating the storage, use and convenience of the products. A fourth function of packaging that is becoming more important now is to facilitate recycling and reduce environmental damage.

(i) Containing and protecting products

The most obvious function of packaging is to contain products that are liquid, granular or otherwise divisible. Packaging also enables manufacturers, wholesalers and retailers to market products in specific quantities such as grams.

Physical protection is another obvious function of packaging. Most products are handled several times between the time they are manufactured, harvested or otherwise produced and the time they are consumed or used. Many products are shipped, stored and inspected several times between production and consumption. Some, like milk, need to be refrigerated. Others, like beer, are sensitive to light. Still others, like bandages and medicines need to be kept sterile. Packages protect products from breakage, evaporation, spillage, spoilage, light, heat, cold, infestation, and many other conditions.

(ii) Promoting products

A package differentiates a product from competing products and may associate a new product with a family of other products from the same manufacturer.

Packages use designs, colours, shapes and materials to try to influence consumers' perceptions and buying behaviour. Packaging has a measurable effect on sales. Appropriate packaging has been shown to improve sales by as much as 50 per cent.

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(iii) Facilitating storage, use and convenience

Wholesalers and retailers prefer packages that are easy to ship, store and stock on shelves. They also like packages that protect products, prevent spoilage or breakage, and extend the product's shelf life.

Consumers' requirements for storage, use and convenience cover many dimensions. Consumers are constantly seeking items that are easy to handle, open and reclose, although some consumers want packages that are tamperproof or childproof. Consumers also want reusable and disposable packages.

Some firms use packages to segment markets. Different size packages appeal to heavy, moderate and light users. Packaging convenience can increase a product's utility and therefore its market share and profits.

(iv) Facilitating recycling and reducing environmental damage

One of the most important packaging issues today is compatibility with the environment. Some firms use their packaging to target environmentally concerned market segments.

6.4 BRAND NAME

Branding should be an indispensable activity of any organization. However, it is imperative for organizations to remember that branding is only an outcome of various other activities in an organization. A brand is an external manifestation of what happens inside the organization. It is important to align all activities in an organization and the behaviour of all employees towards the values embodied in the brand. Many companies believe that branding only comprises the product and communication. Hence, it is also believed that branding is only the responsibility of the marketing department. It is the duty of every department and each individual to shape the perception of the customers in line with the desired brand values. Every department and individual of the company has to identify how he will contribute to shaping the perceptions of the customers. Branding is too important to be the sole prerogative of the marketing department.

The sole purpose of branding is to create differentiation and the brand name by itself cannot act as a differentiator. The brand as a label merely acts as a distinguished name to convey this differentiation. Therefore, the brand is the culmination of all the activities of the organization. The brand name conveys the set of values and attributes embodied in the brand. As soon as a customer hears the brand name, the attributes and values of the brand should conjure up before

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his eyes like a motion picture. This can only happen if the brand has lived its values for a long time. Strong brands just cannot be created overnight. Human behaviour is inherently distrustful. A brand has to live up to its promises consistently before customers start taking its values and attributes for granted.

The strength of the brand is directly proportional to the expectations of the customer about it. Therefore, the first task of branding should be to raise customer expectations about the product. The communication efforts of the company do raise expectations and thus contribute to branding, but personal usage of the product by the customer or recommendations from a personal source are decisive sources for raising expectations. This means that ensuring the product performs well is the most important branding exercise. However, companies have to exercise some caution. In an effort to raise expectations about the brand, a company may hope that the brand in its communications effort with customers can form exaggerated expectations about the brand. If the brand does not match the heightened expectations of the customers, they will be disappointed and can tarnish the image of the brand by talking in negative terms about it. Such a brand will find it difficult to be accepted until the market forgets the fiasco. Any renewed bout of advertising will only enhance the cynicism of the customers towards the brand. The company should wait for a considerable period of time before renewing the effort to arouse expectations among customers again.

However, if the company is too conservative in making claims, customer expectations will not be aroused and they will not buy the brand. It is a delicate balance but companies have to manage it. The communication efforts of the company should arouse just enough expectations among customers to make them interested in buying the brand. And when the brand delivers more than what the customers expected, they spread positive word-of-mouth, thus starting the spiral of 'moderate expectation-superior delivery', which will ultimately create a strong brand.

One interaction alone cannot build or tarnish the brand image, unless it is particularly strong. The whole idea of giving consistent performance is that if once in a while the brand does not perform up to expectations, customers do not start feeling negatively about the brand. Customers should be willing to give the benefit of doubt to the brand if its performance slips once in a while. It is very important that a brand owns up to such one-time lacklustre performance and promises to make amends. A brand which chooses to remain in a state of denial or ignorance about its bad performance gives the signal that it no longer cares about providing the values embodied in the brand or customer sentiments. It is usually useless to argue with customers. Customers interpret a brand's performance in their own way and the company's interpretation of the situation has no relevance to the customer. Instead of arguing against the customer's interpretations of the brand's performance, a company should try to understand the process by which the customer arrived at the interpretation. This would often include an impartial assessment of the brand's performance and the customer's existential situation in which he was using the brand. A customer should never be allowed to have a

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perception about the brand which is different from the perception that the company wants its customers to have. A company's first task is to manage the perceptions of customers about the brand and not let customers develop their own perception. Every activity of the company should be assessed in terms of its influence on the customer's perception about the brand.

Advantages and Disadvantages of Branding

In order to establish itself in the marketplace, a company often takes recourse to branding. The concept of branding aims to create an impact in the marketplace which is identifiable and recognizable. An effective branding can help improve the value of the product and also the company itself. However, branding has both advantages and disadvantages. Some of these are discussed as follows:

Advantages

(i) ***Awareness:*** In most cases, better awareness is created only when a company works harder on its branding and identity. For example, Coca-Cola is a well-known product worldwide. Even if a consumer sees it in a foreign country with the labelling in a foreign language, he will know it is a Coca-Cola product. The red colour and shape of the bottle immediately prompts that the drink is a Coca-Cola product. This is branding at its best.

(ii) ***Consistency in the marketplace:*** When a customer sees a product more often in the market, he prefers to purchase it more often. Therefore, if a company keeps its brand consistent, the customer is more likely to feel that the quality is consistent. This motivates him to become a loyal follower of the brand.

Disadvantages

(i) ***Can become commonplace:*** Several brands try their level best to occupy the top position in the minds of consumers. For example, in many parts of the US, people request a Coke when they go to a restaurant which does not necessarily mean that they want a Coca-Cola product but any soda. While the objective of branding is to become the standard, it does not aim to become the universal term for a line of products.

(ii) ***Negative attributes:*** If a product or service experiences a negative event, then it will become attached to the brand. For example, a massive recall or unintentionally offensive advertisement campaign can damage not only the brand of a company but also its image. This results in impelling the company to build a whole new brand and identity to recapture its place in the market.

6.4.1 Trademark

According to Giovanni B. Ramello, 'A trademark is a sign—a logo, a name, a word, a symbol or a combination thereof—used by a producer or vendor to distinguish a particular product or service'. For example, the way in which the

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brand name Coca-Cola is written, the Nike swoosh and the golden arch of McDonalds.

Trademarks need not be registered. The mere usage of the unique sign validates the claims of the owner of the trademark. However, registering the trademarks gives the owners distinct advantages. It provides a secure and stringent right of usage for the owner and gives him protection against any misuse for an unlimited period. The trademarks are recognized by the symbols TM or ®. A trademark is an intellectual property right for its owner.

Thus, a trademark comprises a unique sign that an organization uses to identify itself in the eyes of its various stakeholders. It also aims to distinguish itself from its competitors by using the trademark. The brand name, logo, symbol and design are the most common forms of trademarks for a company. However, virtually anything that can represented graphically can be registered as a trademark, provided the owner can prove its active usage, and the fact that it lends distinctiveness to his brand name. For example, when Nestle applied for trademark registration for its brand Kit Kat, it applied for the registration of both the brand name, as well as the slogan 'Have a break… Have a Kit Kat' with the British Trade Marks Registry in 1995. However, its competitor Mars objected to the registration of the slogan, saying that 'Have a break…' is an expression, and does not in itself lend distinctiveness to the brand name. However, the European Court of Justice (ECJ) ruled in favour of Nestle (contended by Mars). Amendments by ECJ, for instance, also allow the registration of shapes, colours and smells, provided they lent distinctiveness to the owner. Thus, anything that lends distinctiveness for the owner can be registered as a trademark.

Trademarks are one of the proprietary assets of a company that helps in building brand equity. Therefore, they need to be protected by the company against any malpractices. Misuse of trademarks can erode the brand equity and cause confusion among customers.

According to Rose D Petty, trademark infringements can be proved by the owner on three basis:

- The first category of evidence revolves around the strength of the original trademark. The appellate authority checks the extent of the usage of the trademark, how much is spent on its promotion including advertising and how well the customer knows it.
- The next evidence revolves around the degree of resemblance that the infringed trademark bears with the original trademark. An example of it would be similar sounding brand names or similar looking logos.
- The third category of evidence is related to customers, i.e., whether the copied trademark is causing confusion among them or not. It also relates to the intention of the party that has infringed on the trademark—whether any malicious intention towards inducing the customer to buy was involved or not.

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For example, L'Oreal USA filed a suit for trademark infringement against Zotos International Inc. Zotos is a hair care manufacturer and subsidiary of Shiseido Ltd. L'Oreal alleged that Zotos had copied the packaging and the trade dress of its brand Redken. L'Oreal further stated that the copying confused its customers and caused irreparable damage to the company. It also alleged that Zotos' actions were 'deliberate and wilful'. The two products were also competing in the same market. Therefore, L'Oreal claimed an injunction and monetary compensation.

Similarly, Adidas filed suits against Walmart and other European retailers who were selling shoes bearing the three stripe pattern, popularly associated with Adidas. In the US, the case was dismissed and the agreement between Walmart and Adidas is not known. Walmart was retailing shoes with two stripes. Adidas filed a motion accusing Walmart of violating and diluting its trademark. In Europe, the European Court of Justice (ECJ) ruled in favour of Adidas. The main argument presented by Adidas in both the cases was that customers strongly associated three stripes with Adidas.

Protecting the trademark is not an easy task as products in today's world are exposed to various countries across the world. To monitor if the trademarks are not being infringed anywhere is expensive. For example, the Tea Board of India has registered the Darjeeling Tea variety under the (Indian) Trade and Merchandise Marks Act, 1958. It has also registered it with the geographical Indication of Goods (Registration and Protection) Act, 1999. It has also prevented the misuse of the trademark in countries like Norway, Germany, Israel and Sri Lanka. This exercise alone cost the Tea Board more than $ 200,000 in four years.

Some countries like India and China are particularly notorious for cases of trademark infringements. This is not due to lack of legislations but due to the inability of the local governments to check their enforcements. Further, it is too expensive for the companies to keep a track of the cases of infringement. However, companies must take the pain of tracking the use of their brand names as they have invested a lot of money in building them. In 2006, Bluetooth special interest group (SIG) raided a factory in China and discovered Bluetooth products being manufactured with the logos, without the proper qualification program. Even though China has made trademark infringement both a civil and a criminal offence, regular checking needs to be done to ensure the implementation of the laws.

6.4.2 After-Sales Service

Post-sales or After-sales service is the final step in personal selling and has been utilized by many experienced salesmen as a key in their armoury for obtaining new prospects, repeat sales, etc. This step is vital from the point of view of helping the customer overcome 'post purchase dissonance'. It has been established that negative feelings and thoughts may sometimes arise in a client's mind after the purchase. These could be subconscious doubts which surface in the mind for fear

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of having made a mistake in choosing the product. The salesperson, therefore, needs to reinforce the positive points of the product and its benefits to reassure the client of his correct decision and thereby overcome negativity. Such post-purchase follow-ups need to be periodic and training for the usage of the product (if required) could be an apt justification for the repeated visits.

These could also be part of product installation visits or for clarifying billing details, visits for resolving minor teething problems during initial usage, etc. Of course, product complaints call for mandatory visits by the salesperson even though the complaints may require technical investigation and resolution.

Research has shown that the effectiveness of post sales follow-up go a long way in determining customer satisfaction scores. Besides this, a good salesman who is keenly aware of the value of 'good word of mouth', rarely misses such opportunity to gain referrals from existing customers.

The detailed steps in a sales process, as enumerated above, have been encapsulated by various organizations into training programmes which are easy to understand and recall. One such customer-oriented approach is detailed in Figure 6.1.

This customer-oriented approach critically looks at the buying process of clients and then attempts to marry the selling process to this buying process. Typically, a buying process may be analysed as consisting of the following four stages:

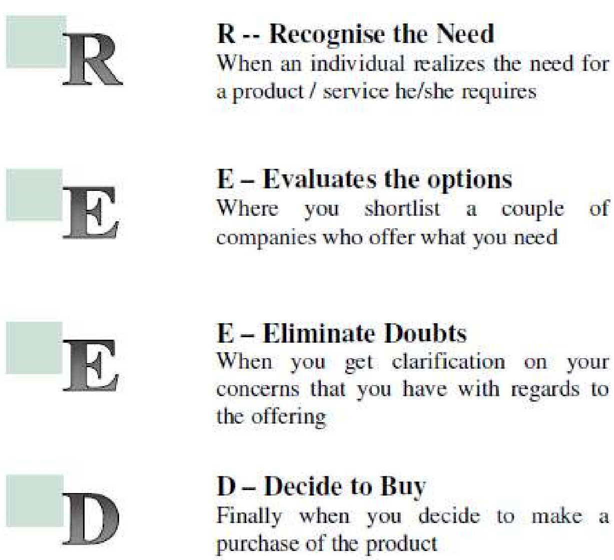


Fig 6.1 A Four-stage Buying Process

A possible selling process to match this buying process could be broken up into the following five stages as shown in Figure 6.2.

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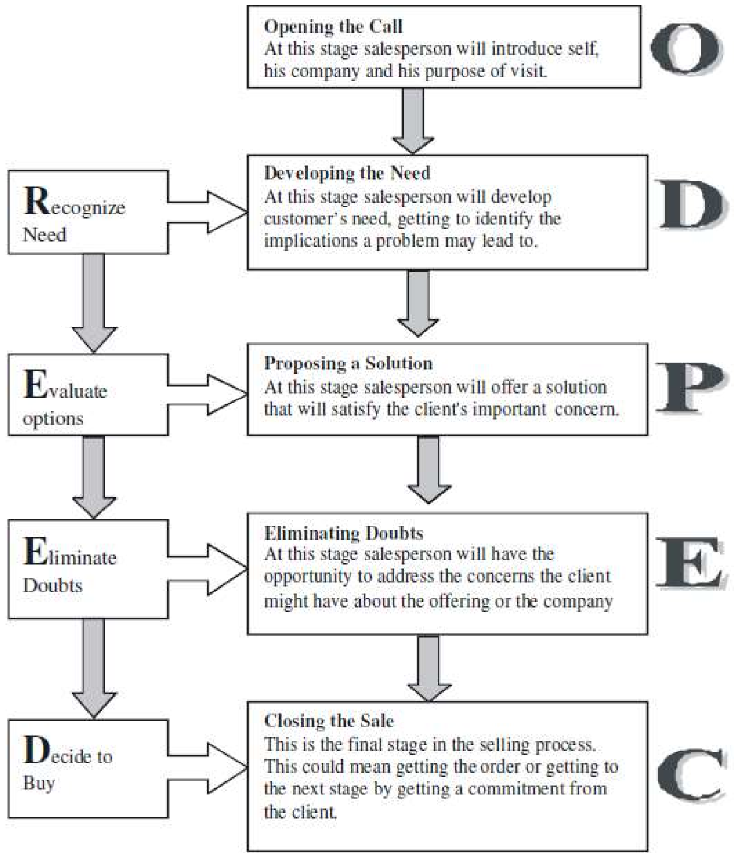


Fig 6.2 Five Stages of a Selling Process

(***Source:*** NIIT training notes)

The highlights of this approach are:

- Selling should begin only after assessing the customer and his needs.
- The focus should be on the customer and not on the product of the organization.
- Thrust must be on how the product will benefit the customer rather than focusing on the product features.
- Post-sale follow-up for maintenance is very important where applicable.
- However, it should be kept in mind that no two customers are alike.

Check Your Progress

1. What is the objective of positioning?
2. What are the functions of packaging?
3. What is after-sales service?

6.5 PRODUCT LIFE CYCLE CONCEPT

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Every product goes through a life cycle right from its inception till decline. The concept of product life cycle is based on the biological life cycle. In the case of a tree, first a seed is planted and then it begins to sprout. After that, comes a stage when leaves shoot out followed by the emergence of roots. After a period of time, the plant begins to shrink and die. The stage of planting of trees can be categorized as the introduction stage. The sprouting can be compared with the growth stage and similarly shooting out of leaves and emergence of roots can be considered as the stage of maturity. The stage of shrinking and dying of plants can be compared to the decline. A similar theory applies to the life of a product. Once the product is developed, it is launched in the market. As it grows, it attracts customers. With the gradual stabilization of the market, the product reaches the stage of maturity while gaining the confidence of more customers. However, this stage does not continue for long as the product faces competition from other superior products and eventually faces decline and has to be withdrawn.

Significance of Product Life Cycle

For a marketing manager, the concept of product life cycle is central to the product marketing strategy. It is based on the following notions:

(i) A product life cycle is initiated the moment the product is introduced in the market.

(ii) Every product has a birth and death, i.e. introduction and decline. The intervening period is characterized by growth and development.

Taking into consideration the stages through which a product travels during its life period, it may be prudent for a marketer to devise a marketing strategy which is appropriate to the relevant stage in the product's life. When the product is introduced in the market at the pioneering stage, the response is limited. It will take some time before the sales pick up. It is only after the product receives the customer's faith and confidence that the sales go up during the development stage of the life cycle. With more competitors in the market, the rate of growth is likely to come down but total sales will go up. Then comes the stage when in spite of the best efforts of the marketers, the sales of the product almost come to a standstill. This stage in the life of the product is called the saturation stage. Henceforth, the sales are likely to decline and the product dies at the end. Though every product passes through these stages, the time span from invention to decline differs from one product to another.

Some products fail at the introduction stage. There are products that continue to remain in the market because of consumers' demand. The length of the life cycle from one stage to another is governed by various factors. At the introduction stage, the product requires a large scale advertisement and promotional campaign

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in order to sustain itself in the market. In case the marketer fails to provide such support, the life cycle of the product is likely to be very short. At the growth stage, the product faces growing competition from rival marketers who offer improved products at a cheaper price. In other words, right from its birth till decline or death, the product has to face a different competitive environment and its capacity to adjust to these environmental factors determines to a great extent the degree of success of the product.

Stages of Product Life Cycle

The various stages of product life cycle are as follows:

1. Introduction stage

As explained above, this is the stage of launching a new product in the market. The length and duration of this phase depends on the pace at which the product penetrates into the selected market segment. This stage continues till the awareness of the product is high enough to attract a large consumer base. The important features of the introductory stage of the product life cycle are as follows:

(i) A high failure rate at the product launching stage itself

(ii) Not enough competition from the rival companies

(iii) Limited product distribution base

(iv) Frequent product modification depending on the response from users and their feedback

The product launching stage causes a heavy financial loss to the company due to the high promotional cost and low sales volume. At this stage, the prime objective of the company is to create product awareness which requires huge marketing expenditure. Such expenditure at the introductory stage is considered as an investment in the product's future. Since the product is introduced in the market at a very competitive price, the quantum of profit is either very low or negligible but at the same time the risk factor is very high. The price of the product will depend on the uniqueness and exclusiveness of the product.

At the introduction stage, the company offers only a limited edition of the product. For example, when Maruti Udyog Limited launched its car in the early 80's, it offered only the 'Maruti-800' version and this was priced very high and thus was not within the common man's budget. The company offered benefits like safety and fuel economy when compared with products like the Ambassador and Premier Padmini.

Pricing strategy

The company has two basic strategic options available with it regarding pricing:

(a) Skimming pricing strategy: Under this strategy, the product is offered at a high price to a very selective segment of consumers–primarily the

innovators and early adopters who can afford to pay a premium price. The product offered has to be distinctive. The growth in sales can be achieved with planned price reduction.

(b) **Penetration pricing strategy:** Under this strategy, the price of the product is kept very low in order to attract the largest possible number of new buyers at the early stage of the product life cycle.

In both the above strategic pricing options, the pricing is done in such a way that the scope for further change in the strategy remains open during the subsequent stages of the life cycle. As per the skimming pricing strategy, an attempt should be made to retain the product's exclusiveness as long as possible. It may not always be possible to earn profits during the introductory stage, but at the same time it is the duty of the marketer to ensure that the introductory pricing strategy prepares the stage for future profitability.

The distribution strategy during the introductory stage of the product life cycle should ensure that the product is made readily available in the targeted market segment. The failure of the company to implement an effective distribution strategy will negate all the positive work done by the marketer during the early stages of the product life cycle.

2. Growth stage

After crossing the introduction stage, the product enters the growth stage of the life cycle. As more than 95 per cent of the products fail during the introduction phase, only the remaining 5 per cent enter the growth phase, which is marked by an intense competition from the rival product companies. As a consequence of this competition, the product is now offered in a more attractive form and packaging and at a competitive price. The main characteristics of the growth stage are as follows:

(i) Intense competition from fellow marketers
(ii) Profitable return
(iii) Rapid demand and sales growth
(iv) Wide product popularity and recognition from the customers
(v) High advertising and distribution cost
(vi) Reduction in per unit cost due to higher production demand

The growth stage of the life cycle is the most suitable to acquire the maximum market share. However, utmost care should be taken to ensure that this does not lead to draining of the company's profitability.

During the growth stage, the marketers concentrate on cultivating selective demand. The marketing strategy involves either the 'niche marketing strategy' or the 'focused marketing strategy'. The growth phase also marks an end to the mass marketing approach.

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The product distribution strategy remains very crucial during the growth phase of the life cycle. The success of the marketing strategy during this phase will depend on getting enough shelf space in retail outlets, which are controlled by a small number of powerful multiple operators these days. This stage also witnesses the establishment of the hierarchy of brand leaders. The consumers make their brand preferences accordingly.

During this phase, all possible attempts should be made by the company to optimize the product's price. This will ensure that there is enough opportunity to maximize the profit towards the end of this period. As the growth period tends to lead towards profits, there is a likelihood that market shares of the product will get stabilized. This phase will also witness the emergence of brand leaders.

3. Maturity stage

There the two basic reasons for the survival of the product during the growth stage and their successful entry in the maturity stage. These are as follows:

(a) Competitive strength of the product

(b) Customer's passion to acquire these products.

The major characteristics of this phase are as follows:

(i) Slowing down of sales growth and profits

(ii) Cut throat competition which leads to a price and promotional war

(iii) Differentiation and re-differentiation of the product

(iv) Withdrawal of marginal manufacturers from the market who cannot sustain the pressure of cut throat competition and reduced profit margin

This phase also witnesses the decline of market growth. The growth, if any, can be achieved only at the expense of competitors. That is why this stage calls for a sustained promotional campaign in order to retain the existing customer base. Taking a decision regarding the promotional budget will also be very difficult due to reduced profit margin. Every possible attempt should be made to avoid the price war because the consequence of price cuts will be very serious, like reduced revenue for all marketing participants. The aim of the price reduction should be to increase the purchase level which can then offset any revenue loss.

4. Decline phase

During this phase, market demand of the product faces gradual decline. This is due to a change in consumers' preferences, who are now looking for more convenient and better products. Due to a decline in the demand for the product, the industry offers only a limited version of the product. Now the number of competing firms also get a reduced customer's value perception and the product also undergoes a change during the decline phase of product's life cycle. Hence the marketers are left with no other option but to abandon the product.

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However, at the same time, it will be worthwhile for marketers to explore the possibility of giving a new lease of life to the product, particularly keeping in view the falling number of competitors. While making an attempt to further extend the life of the product, the management should give more emphasis on strict cost control. Because, during the decline phase, cost control is the only method of ensuring profitability.

Factors Affecting Life Cycle of Product

The length of the product life cycle is governed by several factors like the pace of technological change, level of market acceptance and entry of other competitive products in the market. The crucial factors affecting the life cycle of the product are as follows:

1. Changing technology

The life cycle of the product is immensely influenced by the changing technological environment in the country. In case the technology is changing very fast, it will lead to a new breakthrough in product improvement and product innovation. As a consequence of the same, the life of the old technology based product is cut short and the consumers now switch over to the new product which is more advanced in terms of technology and innovation. This fact can further be illustrated by comparing the life cycle of a product in the USA and India. As the technological change is faster and more rapid in the USA compared to India, the life cycle of the product there is much shorter.

2. Rate of acceptance of the product by the customer

The rate of customer's acceptance of the product also affects the product's life cycle. In case the rate of acceptance by the customer is very fast, the life of the product is likely to be very short. It is because the customers who accept one product easily today, will quickly accept another product tomorrow and the existing products will soon find no demand in the market.

In a similar fashion, if the customer's acceptance of the product is slow, the product life cycle is likely to be very long. In the case of a developing economy like India, since the market acceptance of the product is very slow, the life cycle of the product is usually quite long.

3. Level of competition in the product market

The level of competition in the market also affects the length of the product life cycle. If the markets are very competitive and new products find an easy entry into the market, the life cycle of the product will be very short. This is because easy entry of new products allows the customers to look for alternative products. In the same way, if it is very difficult for new products to enter into the market, the life cycle of the existing products will be longer.

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4. Risk taking capacity of the producer

The extent to which an enterprise can take risks also determines the length of the product life cycle. If the risk bearing capacity of the firm is very high, they can keep the product alive in the market for a longer period of time as they are able to face the market challenges effectively. For example, in case the product is not doing very well in the market, the firm can still take a risk by undertaking a huge advertising and sales promotion campaign to maintain the competitive level in the market. However, in the case of those enterprises who cannot take a high level of risk, they will be left with no option but to withdraw their product from the market. In such a case, the life cycle of the product will be very short.

5. Brand image/good will of the product

In case the company has been able to build a brand image and good will for its product in the market, it can ensure a long lease of life for the product as compared to the products of other companies that do not enjoy such image and goodwill.

Reasons for Change in Product Life Cycle

The two major factors that play a significant role in product life cycle are:

1. Changing needs of the customer

Among the various environmental factors that determine the length of the product life cycle, the most crucial is the customer's need for a capable product which can satisfy human needs. With the gradual increase in customer awareness and the corresponding increase in disposable income, the customer's need and aspirations also undergoes a change. Such a change can very easily be noticed today if we take into consideration the large scale revolution in electronic media which has led to a revolution in markets and products. Due to the active role played by electronic media in product marketing, the demand for the product that had faced a decline or stagnation in the past can suddenly increase and the company can witness a spurt in sales from an unexplored market. While customers from metros and cities now look for more sophisticated products, the customers from rural areas get more satisfaction from basic versions of the product. The companies that are more sensitive to such changes taking place in the customer's needs are competent to incorporate such changes in their product strategies. This fact may be explained through the invention of a Walkman. Before the invention of the Walkman, people in the United States and also some other countries used to carry a large portable music system on their backs with a very high level of unbearable music sound which used to disturb others. This very fact led Sony to develop a small portable music system known as the Walkman.

2. Invention of improved and efficient products

Due to new technological breakthrough and rapid technological changes, companies are now more competent to develop a user-friendly, attractive looking and low

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priced product. Rapid development in packaging technology has also helped companies in capturing the market. For example, tetra packs and PET (polyethylene terephthalate) bottles helped soft drink manufacturing companies to capture the selected target market. Development in the field of packaging helped in making the product convenient to use, carry and preserve. Similarly, the concept of any time money or Automated Teller Money (ATM) and Internet Banking helped the banking sector in expanding their market base and it also provided the customers with more value added features and benefits.

Managing the Product Life Cycle as a Strategic Marketing Tool

A company's attempt to successfully use the strategic concept of the product life cycle (PLC) depends on its ability to precisely identify the transition from one stage of the product life cycle to another. This can be accomplished only when the company is intensely marketing oriented. The company should also encourage development of marketing research and marketing intelligence techniques to achieve its marketing objective.

The use of the product life cycle provides the following valuable benefits to the company:

(i) It provides the company with a tool to forecast future product development and thus helps the company to formulate its strategy. It also helps the company in planning their budget accordingly.

(ii) The PLC as a strategic tool can also help the company in planning beyond the existing line of product. Alternatively, the company can plan some additional or substitute products with more consumer acceptability.

(iii) Another important aspect of the product life cycle is the fact that although every product has to undergo its life cycle, the length of the life cycle differs from product to product. Products like tooth paste, toilet soap, eatables, etc. will have a longer period of the growth and maturity stage when compared to durable goods like radio which has been substituted with television.

By adopting an aggressive product strategy, the company can prolong the growth and maturity phase of the product's life cycle. Such a strategy will include the following:

(a) Carrying out product modifications

(b) Encouraging the consumers to frequently use the product

(c) Creating a new market for its product, i.e., the segment which has remained untapped so far

(d) Locating new users in the existing market

Among the various strategies adopted by the company in order to extend the growth and maturity stage of the life cycle product, the modification strategy is

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the most crucial. Product modification strategies help the company in improving the quality and functional utility of the product.

The functional utility of the product can be achieved by adopting the following measures:

(i) Improvement in product efficiency and personnel level of the product
(ii) Reducing the cost of the product
(iii) Adding more features to the product
(iv) Finding new applications for the product
(v) Increasing the convenience level of the product, i.e., it should incorporate easy to handle features.

Any product modification that is carried out by the company should be based on real customer needs. However, the main problem of the functional modification of the product is that it may increase the cost of the product and may adversely affect the sales of the product.

Yet another strategy adopted by the company to extend the growth and maturity stage of the product's life cycle is to bring about changes in the quality of the product. Any change in the quality of the product is likely to affect the cost, performance and durability of the product. A change in the quality can either improve or reduce the performance level of the product. As a part of the product modification strategy, the company may decide to bring down the quality of the product in order to reduce its cost so than it can easily enter in the lower market segment. Similarly, the company may decide to further improve the quality of the product so that apart from retaining its existing customer base, it can also attract customers of superior brands.

Another method to increase the life of the product that is followed by companies is to bring changes in product presentation and style. This kind of product strategy has been used quite successfully in the automobile market where customers eagerly wait for new models every year.

The products like apparel, shoes, cellular phones, furniture, etc. are forced to undergo large scale changes in style in order to remain alive in the market. Thus, it becomes very difficult to predict what the style of these products will be in next few years.

Check Your Progress

3. What is after-sales service?
4. List the important features of the introductory stage of the product life cycle.
5. How can the functional utility of a product be achieved?

6.6 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

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1. The objective of positioning is to create and maintain a distinctive place in the market for the company's products.
2. The critical functions of packaging include containing, protecting and promoting products as well as facilitating the storage, use and convenience of the products. A fourth function of packaging is to facilitate recycling and reduce environmental damage.
3. After-sales service is the final step in personal selling that is provided when the customer has subconscious doubt regarding the product. The salesperson reinforces the positive points of the product and helps the client overcome negativity.
4. The important features of the introductory stage of the product life cycle are as follows:
    - A high failure rate at the product launching stage itself
    - Not enough competition from the rival companies
    - Limited product distribution base
    - Frequent product modification depending on the response from users and their feedback
5. The functional utility of a product can be achieved by adopting the following measures:
    - Improvement in product efficiency and personnel level of the product.
    - Reducing the cost of the product
    - Adding more features to the product
    - Finding new applications for the product
    - Increasing the convenience level of the product, i.e., incorporates easy to handle features

6.7 SUMMARY

- Before introducing a product, a company has to decide its target market. The company first selects the segments where it will offer its products.
- A company should be able to answer why a customer belonging to its target market would want to buy its product and not that of its competitors.
- The objective of product positioning is to ensure that the product maintains a distinctive place in the market. Target market selection is a part of

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positioning. A company has a differential advantage when it is able to offer something better than its competitors.

- Product differentiation results when a company provides added features that its competitors cannot offer. This means that the company is giving customers something better than its competitors.
- Distribution differentiation arises when the company makes the buy situation more convenient for customers.
- Price differentiation involves estimating the price sensitivity of the target market, and offering relevant values on the basis of such an estimation.
- Branding should be an indispensable activity of any organization. The company should manage the perceptions of customers about the brand and not let customers have their own perception.
- Companies track the use of their brand names by using trademarks. A trademark is an intellectual property right for its owner. The trademarks are recognized by the symbols TM or ®.
- After-sales service is also offered by companies to soothe any negative feelings that may have risen in a client's mind following the purchase.
- Another important concept central to the product marketing strategy is product life cycle. It is based on the following notions:
  - o A product life cycle is initiated the moment the product is introduced in the market.
  - o Every product has a birth and death, i.e. introduction and decline. The intervening period is characterized by growth and development.
- The length of the product life cycle is governed by several factors like the pace of technological change, level of market acceptance and entry of other competitive products in the market.
- A company's attempt to successfully use the strategic concept of the product life cycle (PLC) depends on its ability to precisely identify the transition from one stage of the product life cycle to another. This can be accomplished only when the company is intensely marketing oriented.

6.8 KEY WORDS

- **Trademark:** It is a name, a word, a symbol or a combination thereof—used by a producer or vendor to distinguish a particular product or service.
- **Differential advantage:** Differential advantage is a set of distinctive features that sets a company apart from its contenders.

6.9 SELF ASSESSMENT QUESTIONS AND EXERCISES

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Short-Answer Questions

1. What is differential advantage?
2. Write a short note on product differentiation.
3. What are the essential conditions for positioning?
4. What are the advantages and disadvantages of branding?
5. On what basis can trademark infringements be proved by the owner?
6. What are the reasons for change in the life cycle of a product?

Long-Answer Questions

1. Explain the various stages of a product life cycle.
2. Explain the role and functions of packaging.
3. Evaluate the importance of trademark and the issue related to it.
4. Explain the factors affecting the life cycle of a product.

6.10 FURTHER READINGS

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UNIT 7 PRICE MIX MANAGEMENT

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Structure

7.0 Introduction
7.1 Objectives
7.2 Price and its Importance in Marketing Mix
7.3 Factors Affecting Price of a Product/Service
7.4 Discounts and Rebates
7.5 Answers to Check Your Progress Questions
7.6 Summary
7.7 Key Words
7.8 Self Assessment Questions and Exercises
7.9 Further Readings

7.0 INTRODUCTION

A company earns revenues by charging a price from buyers. Price is the value that the company expects to get from customers in return of the product or the service the company provides to the customer. A company puts a lot of effort into manufacturing and marketing a product and in lieu of this effort a company receives a price. Marketing mix is also inclusive of product, promotion and the distribution of incurred costs. A company is liable to run into loss if the price is unable to cover costs. Both undercharging and overcharging will have detrimental effects on profitability. The purchasing power of consumers and the value additions needed in the product along with the cost structure of the company determine the pricing of product. Unfortunately, most companies decide prices based only on earning revenue.

In actuality, pricing should reflect which segment of consumers the company is targeting, and price changes should not be made erratically based on decisions made by competitors. Instead of ad hoc decisions, pricing should reflect the strategic goals of the company. In this unit, you will learn about the various pricing policies and their objectives, the factors influencing pricing decisions, the different pricing strategies as well as the relevance of discounts and rebates.

7.1 OBJECTIVES

After going through this unit, you will be able to:

- Discuss the various pricing policies and their objectives
- Examine the factors influencing pricing decisions
- Explain the different pricing strategies
- Discuss discounts and rebates in marketing

7.2 PRICE AND ITS IMPORTANCE IN MARKETING MIX

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As one of the elements of marketing mix, price has a significant role in product market integration. Price is the only element in marketing mix that generates revenue.

In simple terms, price may be understood as the amount of money for which a product or services is made available to people. Broadly speaking, price is the total of all the values exchanged by customers so that they can have or use a product or service. Price is the value of product attributes and is expressed in monetary terms. Price is the value a customer pays for in exchange for a product or service. The customer pays for the offered utility or in anticipation of utility or in expectation of some utility from the product or service in exchange.

Pricing facilitates the establishment of a mutually beneficial economic relationship and helps in transferring the possession of goods and services from the company to the buyers. The managerial responsibilities when it comes to product pricing are as follows:

- Establishment of pricing objectives
- Identification of price governing factors and ascertainment of their relevance and importance
- Determination of the value of the product in terms of money
- Formulation of price policies and strategies

Therefore, the role played by pricing is much bigger in the marketing mix of a company and this has a considerable bearing on the effectiveness and success of the marketing strategy and the firm.

Pricing Procedure

The pricing procedure usually comprises the following steps:

(i) Develop information base

The very first thing to do while determining the basic price of a company's product(s) is to come up with appropriate and up-to-date information on the price decisions that can be made. This comprises decision-inputs such as cost consumer demand, production cost, industry prices and practices and government regulations.

(ii) Estimate sales and profits

Once the information base is set up, the management should focus on developing a profile of sales and profits at different price levels to ascertain the level assuring maximum sales and profits under given conditions or situations. On matching this information against pricing objectives, the management gets a preview of the extent to which the objectives can be achieved through price component in the marketing mix.

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(iii) Anticipate competitive reaction

Once the price in the competitive environment is determined, it becomes necessary to anticipate competitive reaction. Competition for the company's product(s) may arise from similar products or close substitutes. The reaction may be strong or mild. There may even be no reaction at all. The reaction may be immediate or delayed. In order to anticipate such a variety of reactions, it is essential to collect information about competitors in respect of their production capacity, cost structure, market share and target consumers.

(iv) Scan the internal environment

It is essential to scan the internal environment and understand it before determining the price. The primary factors to be considered in relation to price are the sanctioned production capacity, capacity available and used, the possibility and convenience of expansion, contracting facilities, input supplies and the state of labour relations. All these factors influence pricing decisions.

(v) Consider marketing mix components

Yet another step in the pricing procedure is to take into account the role of other elements of the marketing mix and weigh them in relation to price. Other things to be kept in mind include the extent of perishability, shelf-life, shape, price and structure. The chances of the pricing being low is higher if the perishability is faster.

(vi) Select price policies and strategies

Selection of the pricing policies and strategies is the next important step in the pricing procedure. These facilitate the provision of consistent guidelines and framework for setting prices suited to specific market and customer needs.

(vii) Determine price

Once the first six steps are over, the management will be in a position to determine price. To be able to do so, the management should take into account the decision inputs provided by the information base and develop minimum and maximum price levels. These prices should not only match the objectives of pricing but also the competitive reactions, government regulations, marketing mix requirements and the pricing policies and strategies, to be able to decide a price. However, the management would do well to arrive at a consensus on the price aspect to ensure that it fulfils consumer expectations.

The buyer-based pricing approach is as follows:

Perceived-value pricing

Many companies base their price on the product's perceived value. They go by buyer's perception of the value of a product, and not the seller's cost, which they

consider the key to pricing. Therefore, pricing starts with an analysis of consumer needs and value perceptions, and the price is set to match consumers' perceived value.

Such companies use the non-price variables in their marketing mix to build up perceived value in the buyer's minds, e.g., heavy advertising and promotion to enhance the value of a product in the minds of the buyers. Thereafter, they set a high price to exploit the perceived value. The success of this pricing method depends on an accurate determination of the market's perception of the product's value.

3. Competition-based approach

The competition-based pricing approach is as follows:

(a) Going-rate pricing

According to this technique, the organization's price is based on the competitor's prices with little focus on its own costs or demand. The company may charge the same price as its primary competitors, or even a slightly higher or lower price. In any industry, the smaller companies follow the leading firm and offer prices according to the market leader's prices. The marketer assumes that the going price is reflective of the collective wisdom of the industry.

(b) Sealed-bid pricing

This competitor-oriented pricing is extremely common in contract businesses where firms bid for jobs. The contractor decides on a price on the basis of expectations of how competitors will bid rather than on a strict relation to his cost or demand. As the contractor wishes to win the contract, he has to bid lower than the other contractors. However, a bidding firm cannot set its price below costs. If it bids higher than the cost, chances of it losing the contract will be more.

A company earns revenues by charging a price from buyers. Price is the value that the company expects from customers in return for the product or the service the company is providing to the customer. Price is the reward a company gets for doing the following with regard to its products:

- Designing
- Producing
- Marketing
- Selling

The product, promotion and distribution elements of the marketing mix incur costs. If the price is unable to cover these costs, the company loses. Therefore, a company has to charge a price that will cover its costs and also generate significant profit. However, if the price is too high, customers may not find its product good value for their money and may not buy the product. Therefore, both undercharging and overcharging are not good for the company.

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You cannot price in isolation. Price should be blended with other marketing mix components to provide superior value to customers. The sales of many products, especially the ones that help customers to express themselves, take a beating if the prices are too low. An example of this is cars, drinks and perfumes. Price is a part of a company's positioning strategy. Therefore, if a product's price is inconsistent with the other three elements of the marketing mix, customers are not clear about its real positioning. Customers form their own price-quality equation and if a product price is too low, they believe that it cannot be of good quality. Similarly, if a product's price is too high, they believe that they are not getting good value for their money. Therefore, a company needs to change customers' price-quality equation before it decides to change price too drastically. Otherwise, customers will not accept the product. It must operate at the new price for a long time to allow customers to form their new price-quality equation. There is yet another type of price fixation, i.e., marginal cost pricing. This will be discussed at the further in the unit.

Implications of the Pricing Policy

A company's pricing policy reflects the organization's philosophy. Customers' perceptions about the company and the brand image are shaped to a significant degree by pricing.

Customers understand that companies have price flexibility. A company may opt to charge a lower price as it wants more people to own and enjoy its product. A company may never run a sales promotion to indicate that its product is always economically priced. It may never indulge in bargaining and insist on fixed price to give the signal that argumentative customers will not have a better deal with the company. A company engaging in frequent sales promotion will give the signal that its prices cannot be trusted and customers only have to wait to get a lower price.

A company should be aware that the pricing strategies and tactics of the company send strong signals about the company's philosophies and beliefs. A company that reduces prices because cost of its raw materials have gone down will have a very different perception among customers from a company which increases price steeply because the demand of its product has gone up. Since customers are strongly affected by the price that a company charges, it leaves a very strong impression about the company on them.

A company should not treat the price of its product as simply another element of the marketing mix, which brings in revenues and profits. While deciding on its pricing policies, an organization should give great thought to how its customers' perceive it and take this into account before deciding on the pricing policy.

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Methods of Pricing

It is not easy to set the price of a product as several product factors, external and internal, need to be taken into account together. The price should refer to its costs as recovery of these is necessary in the long run. Most companies are unable to afford to sell at prices below cost for long periods. The price has to be low enough to attract customers but high enough to bring reasonable profits to the company. A company may be tempted to achieve maximum profits by charging higher prices. However, the customers may not consider the products worthy of its high prices and refrain from buying altogether. The price should match the positioning strategy of the company. The value of a premium brand will be eroded if its price is low. In most situations, all the above factors have to be considered simultaneously when prices are set.

The various methods of pricing are as follows:

1. Cost-oriented pricing

There are two types of cost-oriented pricing: full cost and direct cost.

(a) Full cost pricing

Variable and fixed cost per unit is added and the desired profit margin is added to the total cost. This price is true for one volume of sales/output. However, if sales/output decreases, fixed cost per unit will increase. Therefore, there will be an increase in price as sales fall. Sales estimates are made before a price is set which is illogical. It focuses on internal costs rather than customer's ability or willingness to pay. There may also be technical problems in allocating fixed/overhead cost in multi-product firms.

In spite of its disadvantages, the method forces managers to calculate costs. So, the method gives an indication of the minimum price necessary to make a profit. Break-even analysis can be used to estimate sales volume needed to balance revenue and costs at different price levels.

(b) Direct cost pricing

The desired profit margin is added to the direct cost to get a price. Since the price does not cover full costs, the company would be making a loss. The strategy is valid if there is an idle capacity as a margin covers some part of fixed costs. It is useful for services in periods of low demand as they cannot be stored. However, customers who have paid a higher amount may find out and complain. Direct cost indicates the lowest price at which it is sensible to take business if the alternative is to sit idle. It does not suffer from 'price up as demand goes down problem', as it happens in full-cost pricing method. It also avoids the problem of allocating overhead charges. However, when business is buoyant, it does not take into account

customers' willingness to pay. It is not for the long term as fixed cost must also be covered to make profits. However, it is a good short-term strategy to reduce impact of excess capacity.

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2. Competitor-oriented pricing

These are two types of competitor-oriented pricing. These are as follows:

(a) Going-rate pricing

There is no product differentiation, i.e., there is some sort of perfect competition. All companies charge the same price and smaller players follow the price set by market leaders. This is not an attractive proposition for marketers. Marketers like to differentiate their offerings and achieve a degree of price discretion. Even for commodity products differential advantages can be built upon which premium prices can be charged.

(b) Competitive bidding

The usual procedure is to draw up a detailed specification for a product and put it out for a tender. Potential suppliers quote a price which is confidential, i.e., it is known to themselves and the buyer only (sealed bid). A major focus for suppliers is the likely bid prices of competitors.

$$\text{Expected profit} = \text{Profit} \times \text{Probability of winning}$$

As the quoted price will increase, profits will rise, but the probability of winning the bid will fall. The bidder uses past experience to estimate a probability of clinching the deal at each price level. Expected profit peaks at a particular bid price, at which the bid will be made.

Bid price	Profit	Probability	Expected profit
2000	0	0.99	0
2100	100	0.9	90
2200	200	0.8	160
2300	300	0.4	120
2400	400	0.2	80
2500	500	0.1	50

The company would quote a price of $2200 as it stands to make maximum profit at this price with 80 per cent probability of winning the bid. However, calculation of the probability of succeeding goes haywire where competitors are desperate to win an order. Such competitors would quote very low prices to win the bid as they are willing to take the lower profits. Successful bidding depends on having efficient competitor information system. The company should be aware of competitors who might be having a lot of costly idle capacity. Such companies will quote low prices to utilize their idle capacity.

Salespeople can feed details of past successful and unsuccessful bids. The salespeople should be trained to elicit successful bid prices from buyers and then enter them into the customer database which records order specifications, quantities and successful bid prices. However, not all buyers will reveal true figures so the buyers have to be graded for reliability.

3. Marketing-oriented pricing

Prices should be in keeping with the marketing strategy. They should be linked to positioning, strategic objectives, promotions, distribution and product benefits. Pricing decisions are dependent on other earlier decisions in the marketing planning process. For new products, price depends on the positioning strategy whereas for existing products, prices depend on strategic objectives.

Pricing new products

(i) **Positioning strategy:** If the product is new, there is a whole new range of potential target markets. For calculators, they include engineers and scientists, bankers and accountants and the general public. Choice of target market would have a strong effect on price that could be charged. If engineers were targeted, price could be higher. For accountants, price would be lower and for the general public, it would be even lesser. Over time, price would be lowered to draw other market segments even if engineers were the first targets.

For new products, therefore, marketers should decide on the target market and the value placed by consumers of that segment on the product (the extent of differential advantage), and the price is accordingly decided to reflect that value. Where multiple segments appear attractive, modified versions of the product should be designed and priced differently in line with respective values that each target market places on the product. When a company opts to target different markets by launching different versions of a product at different prices with different target audiences, it should find out whether the customers of the more premium version will trade down once cheaper versions are available. An engineer will buy a scientific calculator even if it is very highly priced in comparison to simpler calculators because the latter will not serve his purpose. If different versions cannot be sufficiently differentiated to be able to keep their customers, a company should desist from launching simpler and cheaper versions for as long as possible. This is because the customers who had hitherto bought the premium version will start buying the cheaper version as they too will serve his purpose sufficiently.

(ii) A combination of high price and high promotion expenditure is called rapid skimming strategy. The high price provides high margins and heavy promotion causes high level of product awareness and knowledge. A slow skimming strategy combines high price with low levels of promotional expenditure. High price means big profit margins but high level of promotion is believed

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to be unnecessary. This is probably because word of mouth is more important and the product is already well known or because heavy promotion is thought to be incompatible with product image as with cult products. This strategy (i.e., skimming) is useful if there is patent protection.

Companies which combine low prices with heavy promotional expenditure are practising rapid penetration strategy. The aim is to gain market share rapidly perhaps at the expense of a rapid skimmer. Slow penetration strategy combines a low price with low promotional expenditure. Owner label brands use this strategy. Promotion is not necessary to gain distribution and low promotional expenditure helps to maintain high profit margins.

(iii) It is important to understand the characteristics of market segments that can bear high prices. The segment should place a high value on the product which means that its differential advantage is substantial. Calculators provide high functional value to engineers and they will be willing to pay high prices for them. Perfumes and clothes provide psychological value and brand image is crucial for such products to be acceptable. High prices go well with premium brand image. High prices are also more likely to be viable where consumers have a high ability to pay.

A company can afford to price its products at higher levels if the consumer of the product is different from the person who pays for it. Products for children or stationery items for a company's employees come under this category. The user simply focuses on the suitability of the product and does not bother much about the price when selecting a product.

A company can also afford to charge a high price if there is a lack of competition among supplier companies. The company does not fear that its customers will switch over to competitors because of its high prices.

A company can also charge a high price from its customers if there is high pressure on them to buy. A business traveller rushing to meet a deadline with a customer will be willing to pay a much higher price for an air ticket than a normal passenger not so hard pressed.

(iv) Low price is used when it is the only feasible alternative. It might be possible that the product has no differential advantage, customers are not rich and pay for themselves, have little pressure to buy, and have many suppliers to choose from. At best, such products could take going rate price but should be launched at a lower price to provide incentive for customers to switch from their usual brands. A company may wish to gain market share or domination by aggressively pricing its products. Penetration pricing, i.e., low prices for market share is sometimes followed by price increase once market share has reached a satisfactory level. Low prices may also be charged to increase output and to bring down costs through experience curve effect. Economies of scale are also achieved. Marketing cost per unit will also fall.

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Low price is also used when the objective is to make money later. Sale of the basic product may be followed by profitable after sales service and/or spare parts.

(v) Price sensitivity may change over time. When products are novel, customers are willing to buy them at higher prices because it serves their unique requirements or provides them self-esteem. But when the same products become widely used, customers start considering the price as an important element in their choice criteria. Also, when customers' income increases, products about which they were price sensitive are bought without much regard to its price.

Pricing of existing products

The strategic objective for each product will have a major bearing on its pricing strategy. For example, if a company wants to develop a premium brand, it will price its products higher, but if it wants to capture the mass market, it will have to price its products lower.

- **Build objective**: The company wishes to increase its market share. In price sensitive markets, the company has to price lower than competition. If competition raises prices, the company should be slow to match them. However, if competition reduces prices, it promptly matches or undercuts it further. For price insensitive products, price will depend on the overall positioning strategy appropriate for the product. If the product is positioned as premium it will have to be priced higher but if the product is targeted at the mass market, the price has to be lower and competitive.
- **Hold objective**: The company wants to maintain its market share and profits. The company's pricing policies are essentially reactionary in nature. The company maintains or matches price relative to the competition. The company reduces price if competition reduces price in order to hold sales or market share. If the competition increases price, the company also increases its price as it does not want to compromise on its profitability.
- **Harvest**: The company is focused on increasing its revenues. It wants to maintain or raise profits even if sales fall. The company sets premium prices in order to achieve this objective. It does not match competitor's price cuts, but price increase is swiftly matched. The company is proactive in revising its prices upwards.
- **Repositioning strategy**: Price change will depend on the new positioning strategy. If the objective is to build a premium brand, the company will price its product higher but if the company wants to reposition the product for the mass market, it will have to lower its price and make it competitive.

A company cannot set its price in isolation. The pricing policy of a company is instrumental in achievement of its financial and strategic goals. The pricing policies of a company also send strong signals to customers about the positioning plank of

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the company. Therefore, price can be decided only after knowing the positioning strategy and strategic objective.

Value to the customer

Price of the product should be precisely keyed to the value to the customer. The higher the value given by the product in comparison to competition, the higher the price that can be charged.

There are four ways of estimating value to the customer. These are as follows:

(i) Buy response method

A company finds out if its customers are open to buying at varying price levels. Up to ten prices are selected within the usual range for the product. Respondents are allowed to see the product and asked if they would purchase it at, say Rs 100. The first price is close to the average for the product category and other prices are randomly stated. The percentage of respondents indicating that they would buy is calculated for each price and plotted to get the buy-response curve. The curve indicates the prices at which willingness to buy falls drastically and indicates an acceptable price range.

The methodology focuses the respondent's attention exclusively on price which may induce an unrealistically high price consciousness. However, the method gives the company a good idea of the value that the customers place on the company's product. Customers weigh price against product features and benefits of the company's products and competitors' offerings. If a competitor has launched a product with more features and benefits at a lesser price, customers will take into consideration the existence of a better product at a lesser price, and will value the company's product's lower.

(ii) Trade-off analysis

Product profiles comprising product features and prices are described, and the respondents are asked to name their preferred profile. The customers consider price as just one aspect of the offering. What they choose indicates the trade-offs that they are willing to make between features and price. An analysis of the customers' preferences for particular profiles and relative importance of each of the product attributes including price is calculated. Based on this leaning, the company can create the right combination of product features and price (taking into account customer preference for product attributes and the price they are willing to pay for them).

A limitation of this method is that respondents are not asked to back up their preferences by being required to buy their preferred combination of features and price. They may not really buy their preferred choice when they are actually making a purchase.

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(iii) Experimentation

Experimental pricing research entails placing a product on sale at different locations with different prices. In a controlled store experiment, a number of stores are paid to vary the price level of the product being tested. For example, 100 malls may be chosen to test two price levels. Fifty stores could be randomly selected and allocated lower prices, and the rest could be sold at higher prices. By comparing sales levels and profit contributions between the two groups, the most profitable price is established. A variant of this procedure tests price differences between the test brand and a major rival brand. In half the stores, a price differential of, say ₹20 may be compared with ₹30.

In test marketing, a single product would be sold in two regions or areas using the same promotional campaign. However, the prices would be different in the two areas. These areas in question, will have to be matched in terms of target customer profile so that it is possible to compare the results, i.e., difference in sales in the two areas can be attributed to difference in prices. The test should be spread over a considerably long period so that it is possible to measure trial and repeat purchase at each price. Competitors may attempt to invalidate the results by launching special promotional schemes in the test areas, making it tough for the company to attribute its sales figure to the price it is charging. This distortion is especially possible when product is not highly differentiated and therefore introducing a cheaper version would make a premium buyer purchase that cheaper version.

(iv) Economic value to customer (EVC) analysis

Experimentation is more useful in consumer products. EVC analysis is used for industrial products. Economic value to the customer is the value that the industrial buyer derives from the product in comparison to the total costs that he incurs in procuring and operating the product. A high EVC may be because the product generates more revenues for the buyer than competition or because its total of procurement plus operating costs are lower over the product's lifetime (Price = Set-up costs, i.e., purchase cost + operating costs). If a company has an offering with high EVC, it can set a high price and still offer much better value in comparison to competition, if the operating cost to the customer is lower. The essential idea is that a company purchases a product to enable it to earn revenues at as less an expenditure as possible. Therefore, a product with high EVC is preferred by industrial customers. The EVC analysis is particularly revealing when applied to products whose purchase price represents a small proportion of the lifetime costs to the customer.

Administrative and Regulated Prices

Not all prices are government by market related factors. Some are set and regulated by authoritative bodies who may have welfare or budget related motives.

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Administrative price as the name suggests is the price set by the government in contrast to the market forces. Price control and rent control are examples of administered prices. The main aim of these prices is to maintain the affordability of general goods.

The administrative or regulating body might be the government, legal statute or regulatory authority. Generally, a certain minimum and maximum limits are set.

Objectives of Pricing Policy

Pricing objectives for a business organization may be several. While some objectives may be primary, others may be secondary. Similarly, some objectives may be long-term while others may be short-term. However, all pricing objectives are emitted from the corporate and marketing objectives of the firm.

Some of the pricing objectives are as follows:

- Target return
- Market penetration
- Market skimming
- Discriminatory pricing or ability to pay pricing
- Stabilizing pricing

1. Pricing aimed at a target return

Here, the pricing is aimed at earning a specific rate of Return On Investment (ROI) and the actual price policy is calculated to earn that rate of return. The target is in terms of 'return on investment'. Some firms, for instance, set the target at 20 per cent return on investment after taxes. This could be a short-term or a long-term target. A firm may also have different targets for different products but such targets are related to a single overall rate of return target.

2. Pricing aimed at market penetration

Initially, organizations set a relatively 'low price' for their new product in a bid to attract a large number of buyers and win a large market-share. This is termed penetration pricing policy. The focus is on growth in sales and not on profits. Their primary objective is to capture business and gain a strong foothold in the market. This objective can be achieved in a highly price-sensitive market. It is also done with the presumption that unit cost will decrease when the level of sales reach a certain target. Besides, the low price policy may force competitors to opt out. When market share increases considerably, firms may gradually increase the price of their product.

3. Pricing aimed at market skimming

Several organizations launch their new product at a 'high price' initially to skim the market. They set the highest price for their product by giving comparative benefits

to their existing customers. After the initial sales slow down, they lower the price to attract the next price-sensitive layer of customers.

4. Discriminatory pricing or 'ability to pay' pricing

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Sometimes, business firms, adopt a discriminatory pricing policy. They charge different prices for different customers or allow different discounts to different buyers.

This discriminatory policy is applicable on the basis of the product, place or time. For example, doctors charge different fees from different patients; railways charge different fares from usual and regular passengers and offer concessional fares to students. Manufacturers may offer discounts or quote different list prices to bulk-buyers, institutional buyers and small buyers.

5. Stabilizing pricing

This pricing policy is aimed at preventing frequent fluctuations in pricing and at fixing uniform or stable price for a reasonable period. Once the price is revised, the new price is allowed to stay for a considerable period. Newspapers and magazines are known to adopt this pricing policy.

7.3 FACTORS AFFECTING PRICE OF A PRODUCT/SERVICE

There are several factors influencing pricing decisions. These are as follows:

1. Price–quality relationship

Customers use price as an indicator of quality particularly for products where objective measurement of quality is not possible, such as drinks and perfumes. Price strongly influences quality perceptions of such products. If a product is priced higher, the instinctive judgement of the customer is that the quality of the product must be higher, unless he can objectively justify otherwise.

2. Product line pricing

Some companies prefer to extend their product lines rather than reduce price of existing brands in face of price competition. They launch cut-price fighter brands to compete with low price rivals. This has an advantage of maintaining the image and profit margins of existing brands. By producing a range of brands at different price points, companies can cover varying price sensitivities of customers and encourage them to trade up to more expensive higher margin brands.

3. Explicability

The company should be able to justify the price it is charging especially if it is on the higher side. Consumer product companies have to send cues to the customers

about the high quality and the superiority of the product. A superior finish, fine aesthetics or superior packaging can give positive cues to the customers when they cannot objectively measure the quality of the offering. A company should be aware of the features of the product that the customers can objectively evaluate and should ensure superior performance of those features. In industrial markets, the capability of salespeople to explain a high price to customers may allow them to charge higher prices. Where customers demand economic justifications of prices, the inability to produce cost arguments may mean that high price cannot be charged. A customer may reject a price that does not seem to reflect the cost of producing the product. Sometimes it may have to be explained that premium price was needed to cover R&D (research and development) expenditure, the benefits of which the customer is going to enjoy.

4. Competition

A company should be able to anticipate reactions of competitors to its pricing policies and moves. Competitors can negate the advantages that a company might be hoping to make with its pricing policies. A company reduces its price to gain market share. One or more competitors can decide to match the cut, thwarting the ambitions of the company to garner market share. However, all competitors are not the same and their approaches and reactions to pricing moves of the company are different.

The company has to take care while defining competition. The first level of competitors offer technically similar products. There is direct competition between brands who define their business and customers in a similar way. Reactions of such competitors are very swift and the company will have to study each of its major competitors and find out their business objectives and cash positions. Competitors who have similar ambitions to increase their market share and have deep pockets will swiftly reduce price if any one of them reduces prices. A telephone company offering landline services has all telephone companies offering landline services as its first level of competitors.

The second level of competition is dissimilar products serving the same problem in a similar way. Such competitors' initial belief is that they are not being affected by the pricing moves of the company. However, once it sinks into them that they are being affected adversely by the pricing moves of a company that seemingly belongs to another industry, they will take swift retaliatory actions. The telephone company has the mobile phone operators as its second level of competitors.

The third level of competition would come from products serving the problem in a dissimilar way. Again such competitors do not believe that they will be affected. However, once convinced that they are being affected adversely, swift retaliation should be expected. The retaliation of the third level is difficult to comprehend as the business premises and cost structures are very different from the telephone company in question. Companies offering E-mail service are competitors at the

third level of the telephone company. A company must take into account all three levels of competition.

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5. Negotiating margins

In some markets, customers expect a price reduction. Price paid is different from list price. In industrial goods, this difference can be accounted for by order-size discounts, competitive discounts, fast payment discounts, annual volume bonus and promotions allowance. Negotiating margins should be built which allow prices to fall from list price levels but still permit profitable transactions. It is important that the company anticipates the discounts that it will have to grant to gain and retain business and adjust its list price accordingly. If the company does not build potential discounts into its list price, the discounts will have to come from the company's profits.

6. Effect on distributors and retailers

When products are sold through intermediaries like retailers, the list price to customers must reflect the margins required by them. Sometimes list prices will be high because middlemen want higher margins. However, some retailers can afford to sell below the list to customers. They run low-cost operations and can manage with lower margins. They pass on some part of their own margins to customers.

7. Political factors

Where the price is out of line with manufacturing costs, political pressure may act to force down prices. Exploitation of a monopoly position may bring short term profits but incurs backlash of a public enquiry into pricing policies. It may also invite customer wrath and cause switching upon the introduction of suitable alternatives.

8. Earning very high profits

It is never wise to earn extraordinary profits, even if current circumstances allow the company to charge high prices. The pioneer companies are able to charge high prices due to lack of alternatives to the customers. The company's high profits lure competitors who are enticed by the possibility of making profits. The entry of competitors in hordes puts tremendous pressure on price and the pioneer company is forced to reduce its price. However, if the pioneer had been satisfied with lower profits, the competitors would have kept away for a longer time, and it would have got sufficient time to consolidate its position.

9. Charging very low prices

It may not help a company's cause if it charges low prices when its major competitors are charging much higher prices. Customers come to believe that adequate quality can be provided only at the prices being charged by the major companies. If a company introduces very low prices, customers suspect its quality and do not buy the product despite the low price. If the cost structure of the

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company allows, it should stay in business at the low price. Slowly, as some customers buy the product, they spread the news of its adequate quality. The customers' belief about the quality-price equation starts changing. They start believing that adequate quality can be provided at lower prices. The companies which have been charging higher prices come under fire from customers. They either have to reduce their prices or quit.

Different Pricing Strategies

While pricing is an important marketing issue, it is also one of the most puzzling marketing problems faced by any business firm. For a new product, the going is not easy because there is no established market or visible demand. The firm may expect a demand for a substitute which will also need to be manufactured. The estimate may not be reliable either for the direct costs of marketing and manufacturing the substitute product. Therefore, this challenging act of pricing can safely be called an art.

There are more challenges. The cost patterns are likely to change with greater knowledge and increasing volume of production. Still, the basic pricing policy for a substitute product is the same as for the established one — covering full costs in the long run and direct costs in the short run. There is, of course, greater uncertainty about both the demand and cost of the product.

Other than the initial problem of demand estimation for an entirely new product, certain other issues that are likely to come up include:

(i) Discovering a competitive range of price

(ii) Investigating probable sales at several possible prices

(iii) Considering the possibility of retaliation from products substituted by it

In addition, decisions have to be taken on market targets, design, promotional strategy and the channels of distribution.

Test marketing can help to decide a suitable pricing policy. Using test marketing, the product can be introduced in selected areas, usually with a price difference in different areas. These tests are able to give a fair idea to the management of the amount and elasticity of the demand for the product, the competition likely to be faced, and the expected sales volume and profits that may be yielded at different prices. Test marketing, however, is not the perfect solution for full-scale production and distribution. Yet, it may provide very useful information for better planning of the full-scale effort. It also helps rectify initial pricing mistakes.

The next important question is whether to have a high initial price or a low penetration price.

1. Skimming price

If the price is high initially and then coupled with heavy promotional expenditure, it may be possible to launch a new product if conditions are favourable. For example:

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(a) Price-wise, the demand will fluctuate less in the initial stages, since high prices are unlikely to discourage pioneering consumers. A new product will command a better price owing to its novelty.

(b) If the life of the product is short, a high initial price will help in getting as much out of it and as fast as possible.

(c) Such a policy can provide the basis for dividing the market into segments of differing fluctuations. Bound edition of a book is usually followed by a paperback.

(d) A high initial price may prove useful if the production skills needed to make the product are kept secret so that it is difficult and time consuming for competitors to enter on an economical basis.

(e) It is a safe policy to keep a low profile where elasticity is not known and the product has not yet been accepted. High initial price may finance the heavy costs of introducing a new product when uncertainties block the usual sources of capital.

2. Penetration price

In certain situations, it is possible for a business firm to successfully expand the market rapidly. As a result, they will obtain larger sales volume and lower unit costs. This is appropriate where:

(a) Short-run price elasticity is high.

(b) Substantial cost savings from bulk production exist.

(c) The mass of consumers accepts the product.

(d) No strong patent protection exists.

(e) Threat of potential competition exists.

(f) A big share of the market is captured quickly.

The low penetration price is aimed at raising barriers against the entry of prospective competitors. Stay-out pricing works well in cases:

(i) Where the total demand is expected to be small. If the most efficient size of the plant is sufficiently big and capable of supplying the lion's share of the demand, a low-price policy can capture the bulk of the market and successfully hold back low-cost competition.

(ii) When sales potential appears to be great, prices must be set at their long-run level. In such cases, the important potential competitor is a large multi-product firm for whom the product in question is probably marginal. They are normally confident that they can get their costs down to the competitors' level if the volume of the product is large.

Product-mix pricing strategies

The strategy to set a product's price has to often change if the product forms a part of the product mix. In this case, the firm watches out for a set of prices that

maximise the profits on the total product mix. Pricing is a challenge not only because various products have related demand and cost but because they face stiff competition.

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7.4 DISCOUNTS AND REBATES

Sales promotions are incentives to consumers or trade and are designed to stimulate purchase. A customer has to be made to believe that he is getting more value for the money he is spending than he would have gotten otherwise if the sales promotion was not in operation. Sales promotion schemes serve to signal the arrival of a time-period in which customers will get the value that they were getting earlier by spending less. In typical consumer promotions, companies reduce the price for a limited time period, or offer more quantity for the same price, or offer extra items or gifts or prizes with the purchase. Discounts and incentives are some of the trade promotions. Companies have to operate sales promotion schemes in a way that customers do not start equating the product with low-priced brands.

Check Your Progress

1. Which is the only element of the marketing mix that generates revenue?
2. List the steps involved in the pricing procedure.
3. What are the various methods of pricing?
4. State the objectives of pricing policy.
5. List the different factors that influence pricing decisions.

7.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Price is the only element in the marketing mix that generates revenue.
2. Pricing procedure usually involves the following steps:
   (a) Development of information base
   (b) Estimation of sales and profits
   (c) Anticipation of competitive reaction
   (d) Scanning of the internal environment
   (e) Consideration of marketing mix components
   (f) Selection of price policies and strategies
   (g) Price determination
3. The various methods of pricing are as follows:
   (a) Cost-oriented pricing

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(b) Competitor-oriented pricing
(c) Marketing-oriented pricing

4. The objectives of pricing policy are as follows:
   - Pricing for a target return
   - Pricing for market penetration
   - Pricing for market skimming
   - Discriminatory pricing or ability to pay pricing
   - Stabilizing pricing
5. The different factors that influence pricing decisions are as follows:
   (a) Price-quality relationship
   (b) Product line pricing
   (c) Explicability
   (d) Competition
   (e) Negotiating margins
   (f) Effect on distributors and retailers
   (g) Political factors
   (h) Earning very high profits
   (i) Charging very low prices

7.6 SUMMARY

- Among the different components of the marketing mix, price plays an important role to bring about product market integration. Price is the only element in the marketing mix that produces revenue.
- In the narrowest sense, price is the amount of money charged for a product or service. More broadly, price is the sum of all the values that customers exchange for the benefit of having or using the product or service.
- Price may be defined as the value of product attributes expressed in monetary terms, which a customer pays or is expected to pay in exchange and anticipation of the expected or offered utility.
- The managerial tasks involved in product pricing include establishing the pricing objectives, identifying the price governing factors, ascertaining their relevance and importance, determining product value in monetary terms and formulating price policies and strategies.
- The pricing policy of a company sends out signals about the company's philosophy. Customers' perceptions about the company and the brand image are shaped by pricing to a considerable degree.

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- Some companies prefer to extend their product lines rather than reduce price of existing brands in face of price competition. They launch cut-price fighter brands to compete with low price rivals. This has an advantage of maintaining the image and profit margins of existing brands.
- Pricing a new product is an art. It is one of the most important and puzzling marketing problems encountered by a firm. There are many drawbacks for the introduction of a new product since there is neither an established market nor a demonstrated demand for it.
- Test marketing can be helpful in deciding a suitable pricing policy. Under Price Mix Management test marketing, the product is introduced in selected areas, often with a price difference in different areas. These tests will provide the management an idea of the amount and elasticity of the demand for the product, the competition it is likely to face, and the expected sales volume and profits it might yield at different prices.
- The strategy for setting a product's price often has to be changed when the product is a part of a product mix. In this case, the firm looks for a set of prices that maximize the profits on the total product mix. Pricing is difficult because various products have related demand and cost and face stiff competition.

7.7 KEY WORDS

- **Target profit pricing**: Target profit pricing is an important cost-oriented pricing method where the company attempts to decide the price that would generate the profit it wishes to earn.
- **Rapid skimming strategy:** Rapid skimming strategy uses a combination of high price and high promotion expenditure to face competition and establish market share quickly.

7.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the various implications of the pricing policy?
2. Differentiate between going-rate pricing and sealed-bid pricing.
3. Write a short note on penetration pricing.
4. What are the various types of competitor-oriented pricing?

Long-Answer Questions

1. Examine the various steps involved in the pricing procedure of a product.
2. What are the three general pricing approaches adopted by companies for pricing their products? Discuss in detail.
3. Explain in detail the different methods of pricing.
4. Explain the various factors that influence pricing decisions.

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7.9 FURTHER READINGS

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UNIT 8 DISTRIBUTION CHANNELS

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Structure

8.0 Introduction
8.1 Objectives
8.2 Distribution Channels: Concept and Role
8.3 Types of Distribution Channels
8.4 Factors Affecting Choice of Distribution Channel
8.5 Retailer and Wholesaler
8.6 Answers to Check Your Progress Questions
8.7 Summary
8.8 Key Words
8.9 Self Assessment Questions and Exercises
8.10 Further Readings

8.0 INTRODUCTION

Products need to be made available in adequate quantities in convenient locations and at times when the customers want to buy them. Channel intermediaries are those organizations which facilitate the distribution of products from producers to customers. Channel of distribution is how products are moved from the producer to the ultimate customer. Producers need to consider not only the needs of the ultimate customers but also the requirements of channel intermediaries. Industrial channels are shorter than consumer channels because there are a small number of industrial customers and they are geographically concentrated at a few locations. Industrial products are often complex in nature and the buying process is long. Manufacturers and industrial customers interact extensively during the buying process and even afterwards as most industrial products need to be routinely serviced. Consumer channels are normally longer because many geographically dispersed customers must be reached. The consumers buy in small quantities. The information needed to arrive at a purchase decision is limited because the products are not very sophisticated. Channel intermediaries serve several specialized functions that enable manufacturers to make their goods available to their customers at the right place at the right time. The functions that a channel performs depends on the sophistication of the customer needs and the existing level of technologies. In this unit, you will study the importance of channel of distribution in detail. You will also learn about the different types of retail formats, the different elements of the physical distribution system and the different methods identified for improving customer service.

8.1 OBJECTIVES

After going through this unit, you will be able to:

- Explain the importance of channel of distribution
- Describe the functions of the distribution channels
- Discuss the different facets of retailing and wholesaling as channels of distribution

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8.2 DISTRIBUTION CHANNELS: CONCEPT AND ROLE

A critical element in marketing is communicating the attributes of the product to prospective customers. A number of communication channels are available to a firm; these include direct selling, sales promotion, direct marketing and advertising. A firm's communications strategy is partly defined by its choice of channel. Some firms rely primarily on direct selling, others on point-of-scale promotions or direct marketing, and others on mass advertising; still others use several channels simultaneously to communicate their message to prospective customers.

An essential part of a firm's marketing mix is the formulation of its distribution strategy. This is a process by which a firm chooses the right strategy for delivering its product to the consumer.

The process of distribution involves all activities related to time, place and ownership, and utilities for industrial and ultimate consumers. The selection, operation and motivation of effective channels of distribution are crucial factors for gaining advantages in the markets. Availability of channels depends on culture and tradition.

Distribution channels are the link between producers and customers. Developed countries have more distribution channels. Changes in the current structure can be introduced only in response to changes in the economic environment. There are a number of intermediaries involved in international distribution either directly or indirectly.

Distribution System

Figure 8.1 illustrates a typical distribution system consisting of a channel that includes a wholesale distributor and a retailer. If a firm manufactures its product, it can sell directly to the consumer, to the retailer or to the wholesaler.

The same options are available to a firm that manufactures outside the country. Alternatively, this firm may decide to sell to an import agent, who then deals with the wholesale distributor, the retailer or the consumer.

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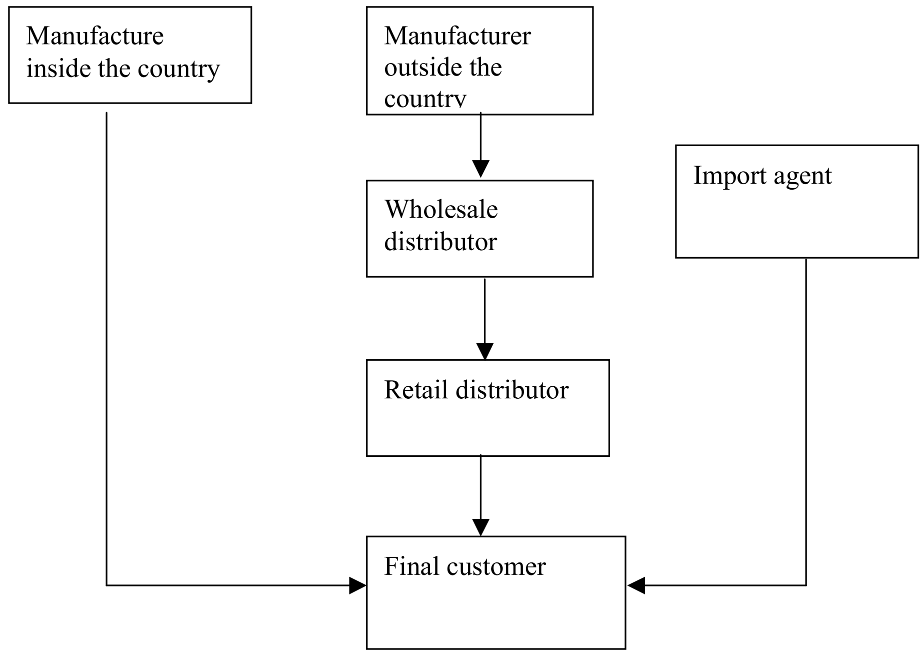


Fig. 8.1 A Distribution System in International Marketing

Channel Marketing

A marketing channel can be defined as a method of getting a product to the customer's (the end-user's) hand. Direct sales and sales through a reseller are the commonly used methods in a channel. A direct sale happens via the phone, the Net or mail. An indirect channel sale typically refers to sales through a reseller. A reseller can order directly or from a wholesale distributor. The marketer would sell to a wholesale distributor who in turn would sell to multiple resellers (there are two tiers between the marketer and the end-user, hence the term "two-tier" distribution).

Which Channel to Use?

There is always a question about which channel to choose—direct or indirect. Companies have the option of using both and this is happening more and more especially with the popularity of the Internet. But companies should avoid getting involved in channel conflict.

Channel conflict happens mostly when the vendor and the reseller, or different reseller types (retail, VAR, mail order, Internet) compete for the same business.

To minimize conflict in channels, a marketer can take the following steps:

- Segment the products in different markets (different products are sold through different reseller types or channels).
- Identify and set up exclusive or limited territories.
- Adopt the approach of selling directly at a higher price than the average street price.

- Set up different promotions for different resellers, rotating them so they all have advantages at different times
- Set up reseller levels—reward higher margins and support for higher authorization (the resellers choose whether they can be competitive).
- Set up a process to determine if a customer has worked with a reseller prior to taking the business directly (so you do not steal the business that they cultivated), etc.

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While doing channel selection, marketers should be aware that there are many ways by which channel conflict can be reduced. But the key is to be aware that it could exist and that it could have short and long-term ramifications. It is also important that you keep your reseller satisfied and ensure that your revenue targets are met.

8.3 TYPES OF DISTRIBUTION CHANNELS

The question of choosing direct, indirect or both channels of distribution are often determined by the following:

1. Ability to recruit resellers: If there is difficulty in the distribution of a product or in finding resellers, then the direct channel should be selected.
2. Product type: If the product that the firm has introduced in the international market requires a lot of training, installation and support, firms may go directly until its resellers are trained and certified. If the firm has a large enough sales force, it may opt for the direct channel. However, if the firm has sales people to only cover the largest number of customers, say ten sales people to cover the top 100 customers, but not enough to cover the middle 5,000 customers, the firm may wish to use resellers to cover the middle market. It may then segment the product line, that is, one for direct and one for resellers.
3. Market dynamics: As the market technology changes and products that once to required support become easier to use, and customers know what they want, firms may go direct (like Dell which started with a modest model as people needed support).
4. Price point: High-end premium quality consumer products (such as expensive cookware, the best vacuums, etc.) are sometimes sold directly (and usually person-to-person) since the benefits (which are real, but not always obvious) must be sold. However, this does not mean that high-priced products cannot be sold via the same channel (boats, aircraft, million dollar SFA products, etc.).
5. Customer requirements: Some customers require a direct relationship with the vendor to ensure that their needs are met. In some cases, when an account insists on going directly, the reseller can still earn a bounty for delivering the qualified, pre-sold lead.

6. Ability to manage resellers: Much of the decision to go directly or indirectly is also dependent on the companies' ability to understand how the channel functions, how to come up with a competitive programme and manage the reseller programmes and relationships.

The final decisions on direct or indirect channels of distribution are based on the firm's business model and how it addresses the questions above.

Channel Management

Channel management deals with the selection of different channels of distribution and making them functional. Selection depends on distribution structure and choice of specific channel members. Effective functioning of channels requires maintaining cordial relationships and minimizing conflicts.

Selecting of the channel involves establishing objectives (clear cut definition of the target customers), establishing feasible channel alternatives depending on the weaknesses and strengths of a channel and an evaluation of alternative channels.

The Six Cs

The popularly known Six Cs play a vital role in marketing. These are:

(a) Consumer: To understand the tradition, culture, ethics and values of consumers who will be ultimately consuming the product, the product will have to be designed accordingly.

(b) Communication: This refers to the ways and means of spreading awareness regarding the product in a market. It should have wide publicity and should be cost-effective as well.

(c) Cost: This refers to a competitive cost which may meet market standards.

(d) Competencies: This refers to the core competencies available with the firm.

(e) Competitiveness: The product should be able to compete in the market in terms of quality and price.

(f) Commodity: The nature and quality of goods/products.

8.4 FACTORS AFFECTING CHOICE OF DISTRIBUTION CHANNEL

One major issue which affects channel decision in marketing is of coping with differences. There are three major differences in channel decisions—retail concentration, channel length and channel exclusivity.

Retail concentration

Retailers are companies that sell only to consumers. There is considerable diversity in the nature and size of retailers. Geographical factors are important considerations

in retail concentration. Retail systems may be concentrated if size and diversity is less but if size and diversity are large, then the retail system will be more fragmented.

It is easy to operate for many firms in concentrated systems and few retailers can have a major share of the market. In Germany, for example, four retail chains control 65 per cent of the market for food products.

In neighbouring Italy, retail distribution is fragmented, with no chain controlling more than 2 per cent of the market.

There is a tendency for greater retail concentration in developed countries. Three factors that contribute to this are the increase in car ownership, the number of households with refrigerators and freezers, and the number of two-income households.

All these factors have changed shopping habits and facilitated the growth of large retail establishments located away from traditional shopping areas.

Channel length

International marketers utilize various channel patterns in serving their target customers. Marketers must decide upon the length and breadth of the channel.

In a channel length, there are a number of intermediaries between the product (and manufacturer) and the consumer. Channel length also depends on the number of intermediaries. Direct marketing is an example of very short channel length.

The number of import agents, wholesalers and retailers makes up the channel length. Normally, industrial product channels are shorter (involving fewer levels of intermediaries) than those for consumer goods.

Industrial goods are often technically complex, expensive and sold in large volumes to individual customers, favouring direct distribution.

The choice of a short or long channel depends on the marketing strategy of a firm. There is a wide choice of possible alternatives: road, rail, water (inland and coastal), pipeline and air.

What works for a firm is the only important consideration. Product, industry and distribution characteristics have a bearing on this. However, to be effective, the firm has to do something different from its competitors.

The reason for this is simple economics. It is very expensive to have and maintain a fragmented retail system. Also, it is problematic for firms to make contact with each individual retailer. Imagine, for example, a firm that sells toothpaste in a country where there are 50,000 small retailers. To sell directly to the retailers, the firm would have to build a huge sales force. This would be very expensive, particularly since each sales call would yield a very small order.

Imagine, however, that there are 50 wholesalers in the country that supply retailers not only with toothpaste but also with all other personal care and household products. Since these wholesalers carry a wide range of products, they get bigger orders with each sales call.

Thus, it becomes worthwhile for them to deal directly with the retailers. Accordingly, it makes economic sense for the firm to sell to the wholesalers and for the wholesalers to deal with the retailers.

Value addition is what is offered by members of distribution channels in terms of service to the customer. The customer will appreciate and welcome this to the extent of recognizing its value in a premium price.

It is obvious that countries with fragmented retail systems will have long channels of distribution.

The classic example is Japan, where there are often two or three layers of wholesalers between the firm and retail outlets.

In contrast, in countries such as UK, Germany and the US where retail systems are far more concentrated, channels are much shorter. When the retail sector is very concentrated, it makes sense for the firm to deal directly with retailers, cutting out wholesalers.

A relatively small sales force is required to deal with a concentrated retail sector and the orders generated from each sales call can be large.

Such circumstances tend to prevail in the US, where large food companies sell directly to supermarkets rather than going through wholesale distributors.

Efficiencies are being sought in this area. Worldwide, the trend is towards shorter distribution channels and closer links, if not direct relationships, with the active participants in the channel.

Channel exclusivity

An exclusive distribution channel entry of outside firms is very difficult. Shelf space in the US supermarkets is an example of channel exclusivity.

This happens because retailers prefer to carry the products of long-established manufacturers of foodstuffs with national reputations rather than gamble on the products of unknown firms.

Exclusivity in a distribution system varies between countries. Japan's system is often held up as an example of a very exclusive system. In Japan, relationships between manufacturers, wholesalers and retailers often go back decades.

Many of these relationships are based on the understanding that distributors will not carry the products of competing firms. In return, the distributors are guaranteed an attractive compensation by the manufacturer.

As many US and European manufacturers have learned, the close ties that result from this arrangement can make it difficult to access the Japanese market.

Instead of trying to enter in the traditional way, i.e., via the existing distribution channels, some western companies have been successful in Japan because they have short-circuited the traditional Japanese system and gone directly to the Japanese consumer instead.

Going directly is clearly a trend in Western markets and provides the manufacturer with the ability to take back more control of the product and the level of services offered to customers.

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Choosing a Distribution Strategy

The starting point for developing a channel is to consider the objectives that the management has formulated. The distribution objectives are based on overall marketing objectives, and include the designation of target consumers and what benefits are provided to them.

The decision to choose a distribution strategy is also correlated to the selection of channels that firms will use to reach potential consumers. Should the firm try to sell directly to the consumer or should it go through retailers? Should it go through a wholesaler or should it use an important agent? These are questions that the firm has to answer.

It is essential to focus on choosing the optimal strategy in selection process. This is based on the relative costs and benefits of each alternative. But it is very difficult to measure the relative costs and benefits because these vary from country to country. Relative cost and benefits of alternatives can be measured by the following factors—retail concentration, channel length, and channel exclusivity.

In channel length there are a number of intermediaries and each intermediary channel adds its own margin to the products. Therefore, final cost can be decided only after knowing the margins of each and every intermediary. One can, therefore, say that there is a critical linkage between channel length, the final selling price and the firm's profit margin.

The longer the channel, the greater is the aggregate margin, and the higher the price that the consumers have to pay for the product.

To ensure that prices do not get too high due to markups by multiple intermediaries, a firm might be forced to operate with lower profit margins.

Thus, if price is an important competitive weapon and if the firm does not want to see its profit margins squeezed, other things being equal, the firm would prefer to use a shorter channel.

However, the benefits of using a longer channel often outweigh these drawbacks. As we have seen, one benefit of using a longer channel is that it economizes on selling costs when the retail sector is very fragmented.

Thus it makes sense for an international business to use longer channels in countries where the retail sector is fragmented and shorter channels in countries where the retail sector is concentrated.

Some would argue that the only way to internationalize is to move closer to full control by means of wholly-owned subsidiaries.

This is quite erroneous. First, we have to consider industry characteristics, the value added to the business and what the customers actually want. Second, it

is often possible to achieve close control through a commission agent or joint venture.

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Import agents may have long-term relationships with wholesalers, retailers, and/or important consumers and thus be better able to win orders and get access to a distribution system than the firm can get on its own. Similarly, wholesalers may have long-standing relationships with retailers and, therefore, be better able to persuade them to carry the firm's product than the firm itself would.

For example, to break down channel exclusivity and gain greater access to the Japanese market, in 1991–92, Apple Computer signed distribution agreements with five large Japanese firms: business equipment giant Brother Industries, stationery leader Kokako, Mitsubishi, Sharp and Minolta.

These firms used their own long-established distribution relationships with consumers, retailers, and wholesalers to push Apple Macintosh computer through the Japanese distribution system. As a result, Apple's share of the Japanese market increased from less than 1 per cent in 1988 to 6 per cent in 1991, and it was projected to reach 13 per cent by 1994.

Check Your Progress

1. State the two steps taken by marketer to minimise conflict in distribution channel?
2. What is channel management?
3. What are hypermarkets?

8.5 RETAILER AND WHOLESALER

Retailing is the set of activities related to the sale of products and services to the ultimate customer. Companies carry out market research to know a customers' attitude towards their products but the customers' real intent are displayed only during the process of buying in retail stores. A company can develop insights into the behaviour of its customers as they shop in the retail store. However, most retail stores are not owned by the companies whose items are sold in them. Retailers have huge amount of information about customer behaviour but all this information is not passed on faithfully to the companies. A retailer's prime affinity and loyalty is towards the customers of his store, and not to the companies whose goods he sells. Companies either need to have more leverage with the retailers or own some retail stores themselves to be able to know their customers better.

It is a huge managerial challenge to run a retail operation. A retailer is required to have both marketing and operational skills. He needs empathy to understand customer requirements but he also has to be indifferent enough not to let customer's anguish about the products in his store bother him. He has to remember that he sells the manufacturer's products and it is manufacturer's duty to make right products

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for the customers. The retailer's focus has to be on getting the operation of his store right, which in itself is a stupendous task. The retailer has to get the right assortment of products in the store in an efficient way, arrange the products in a way that stimulates purchase and minimizes inconvenience for customers, and manage a group of friendly and effective salespersons.

Consumer decision making involves not only choices of products and brands, but also the choice of retail outlet. Most retailing is conducted in physical stores of various types having various product assortments, but non-store retailing such as mail order, automatic vending, and internet sales account for large amount of sales, especially in developed countries. In developing countries, these formats are slowly finding acceptance now. Retailing provides making products available when and where customers want to buy them. Its international nature is increasing and is emerging as an important service.

Classification of store formats

There are many types of retails formats like discount stores, supermarkets, convenience stores, department stores, etc. These retail store formats vary from each other on the basis of their product assortment (product depth and width), price, and location.

Product factors

Narrow and deep product assortment*:* The store has one product category or a very narrow, related range of products. The store however stocks large variety of these products. The variety available in this store format is unparalleled and is the competitive criteria among these stores. These are sometimes called specialty stores. The price range in these stores could either be narrow, catering to a specific market segment or broad, covering a large number of segments. Product categories in which this format is popular are footwear, clothing, furniture and furnishing. As the economy of a country develops, people want more sophistication and variety in greater number of categories and this can be provided only in this type of format. This format can afford specialization of retail personnel which will be necessary in handling customers' enquiries as categories develop.

Some specialty stores have very limited number of product categories (typically one) and the complete range in that category under one roof. These stores can afford lower prices because of their influence on the manufacturers as they sometimes control the market of the category. For instance, IKEA is one such store that stocks every type of furniture in all price ranges and usage. Called category killers, these stores eliminate competition in the specified category.

Wide and shallow product assortment*:* The store has a number of products, but stocks a limited variety of all these goods. The store usually stocks related items, for instance, lifestyle goods for the whole family that include clothes, books, home décor, jewellery, cosmetics, accessories, stationary, toys, etc. For instance, in India, Ebony and Shopper's Stop are such stores. This store format is

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gaining wide acceptance in India as the store acts as a one-stop-shop for the complete family. Usually such stores are also accompanied by food joints and entertainment plazas that provide an ideal day out. Such formats always face a conflict between the number of product categories they should store and the range in each category. If the number of product categories is large, chances are that the range in each one of them would be smaller because of space constraints or else it may become too unwieldy. However, this arrangement will leave a lot of customers dissatisfied as they may find the range too limited. The other option is to have limited product categories and a wide range in each one of them. This will reduce the number of occasions that the customer will find a reason to walk into the store. These store formats will ultimately be targeted to specific segments. One such store targeting an upmarket clientele will stock premium brands in all categories, whereas the downmarket store will stock popular or less premium brands.

Hypermarkets: The evolution of hypermarkets has resulted in wider and deeper product assortments for customers. These retail formats are characterized by very large retail space that are leased out to various brands. These huge retail formats have several single brand stores in many of the product categories. The choice of the brands offered conveys the depth of the category, image of the store and reflects the intended target market.

Location factors

One specific type of specialty store is the grocery store, the chemist etc., whose critical factor for success is the proximity to the customer. These stores operate in those product categories for which the customer desires convenience of location. The products may be urgently required like medicines. Some of these products, like grocery items, vegetables and fruits, have to be bought frequently as they would be spoiled if they were stored for a long time. The importance of a store's proximity to customers has not waned even with improvement in transportation and more families owning vehicles because in most households both husbands and wives are working longer hours. Purchasing for the household is done only during weekends. Such families need nearby stores where they can purchase fresh grocery during the weekdays. Therefore, such stores should stock only those items whose purchase the family cannot postpone till the weekend. These stores can have arrangement to deliver the items on a regular basis to the households.

Families make major purchases for the household during the weekend but they often combine the purchasing of supplies with an entertainment trip. The family would watch a movie and buy its supplies on a common trip. For such excursions, location of stores is not important in terms of proximity to customers. Proximity to customers may even become a liability, because for most people the idea of entertainment is not walking into the theatre or restaurant which is next door. Customers would like to travel some distance for their weekend trips. But location still remains important. The store has to be located at places which the customers are most likely to visit during their weekends. Shopping and entertainment

have to be packaged together for customers who do not have the time to shop during weekdays.

Price factors

Some retail stores may charge normal or list prices, while some may charge lower than list prices on a regular basis. Retail stores that offer products on the list price do not give discounts on a regular price, though they engage in promotions. All the stores mentioned above charge list prices from their customers. However, there are stores called discount stores which sell products at low prices daily. They can do this by bulk buying, accepting low margins, managing costs tightly and choosing locations where real estate prices are low. These discount stores get price concessions from manufacturers because of the high offload from these stores.

Types of retail formats

There are several distinct types of retail stores; each retail store is different from the other in terms of product assortment, level of service and price level, depending upon the requirements of its target market.

- **Departmental stores**

A departmental store has many departments or sections, each carrying a different product line. A wide array of shopping goods including clothes, accessories and home appliances are on display. Purchases are generally made within each department which is treated as a separate buying centre. Each department is headed by a buyer or department head who helps in the selection of products for his department. He also promotes the products of his department and is in charge of personnel working there. In order to maintain uniformity, the store management decides the broad guidelines regarding what products would be sold in the department store and how they will be priced. The store management also shoulders the responsibility for advertising, policies for credit and customer service. Most department stores are owned by national chains.

Department stores are under attack. Customers have become cost conscious. Specialty retailers, discounters, catalogue outlets are offering superior merchandise selection, better pricing and greater convenience to take sales away from department stores. Many manufacturers are opening their own stores and discounters are upgrading their merchandise, taking away sales from department stores. In response, department stores are repositioning as specialty outlets. They are dividing into mini boutiques each featuring a different product category, as specialty stores do. They are also upgrading their service to shift the attention away from price.

- **Speciality store**

These stores target their merchandise to specific target markets. The store specializes in selling a particular product like teenagers' or men's apparel, sports

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related products, etc. The array of products in a speciality store are exclusive and narrow in its range as compared to a department store. The sales personnel of these stores are knowledgeable and supply better customer service. Customers usually consider price to be secondary in specialty outlets. The distinctive merchandise, the store's physical appearance and the calibre of the staff determine its popularity. Because of their attention to the customer and limited product line, manufacturers often favour introducing new products in small specialty stores before offering them to larger retail and department stores. Small specialty stores also provide a low risk testing ground for many new products.

- **Supermarkets**

Supermarkets are large, departmentalized, self-service stores that specialize in food and some non-food items. Supermarkets are facing declining sales because dual-income families are eating out more and are preferring prepared foods. There is growth in the away-from-home food market due to an increase in the number of working women. They are willing to pay for convenience and time-saving products, and prefer one-stop shopping due to paucity of time. Supermarkets have responded by increasing the size of their operations to meet the customer need for variety, convenience and service.

These superstores provide one-stop shopping for food and non-food items as well as services including pharmacies, flower shops, in-store bakeries, takeaway food sections, sit down restaurants, video rentals, dry cleaning services, etc.

- **Convenience stores**

Convenience stores are miniature supermarkets. These stores offer a limited line of high turnover convenience goods. These are stores providing self-service and situated in close proximity to residential localities and are open for long hours. Customers pay for the convenience of location, long hours and fast services. Due to competition from supermarkets and discount stores, these stores are also extending their offering of non-food items.

- **Discount stores**

The basis for competition for a discount store is low prices, high volume and high turnover.

There are two types of discounters:

(i) Full-line discounters or mass merchandisers

The service offered by these stores is limited. They display a wide range of famous and popular brands of products like home appliances, hardware, toys, sporting goods, clothing, bedding, linen, etc. Some even display a small amount of non-perishables such as soft drinks and canned food. The retailing strategy is to price the products to be sold in these stores at a low level. Moreover, the service offered

in these shops is not of a high level. Both these factors work together to get a high turnover of goods. Wal-Mart is the most renowned discounter.

(ii) Speciality discount stores or category killers

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Category killers sell a single line like electronics, sporting goods, toys, office-supplies, etc. An almost complete selection of single line goods is offered by these goods. Self-service, discount prices, high volume and high turnover prevails in these stores. Home Depot and Staples are famous category killers.

- **Disruptive innovations in retailing:** When a disruptive technology is used, new models are created which change the entire dynamics of their industry. The first disruption in retailing came in the form of department stores. This was followed by a mail-order catalogue. The third and fourth disruptions were discount department stores and internet retailing respectively. The disruptions change the economics of market but do not have an impact on the profitability of a company. In retailing, profits can be determined and earned by the margins that stores can earn and how frequently they can turn the inventory over.
- **Department stores:** Initially, local merchants dominated the retailing scene. They kept large stocks, sold their products on credit and offered personal advice. They could turn their inventory over only twice a year and therefore had to charge a high price. Department stores which appeared later did not offer some of the personalized services of the local merchants but they made the shopping experience more convenient by bringing an enormous amount of products under one roof. The shoppers could now purchase an array of goods in one store instead of going to several shops for buying different goods. A huge clientele meant that they could reduce the price of their products. They also accelerated their inventory turnover rates. The stores were located in the busiest part of the city.
- **Catalogue retailing:** Another disruption also took place at around the same time. Catalogue retailing was started to cater to customers in rural areas who could not visit cities. For instance, the lack of personalized service in Sears was compensated by money-back guarantees.
- **Malls and discounters:** There is only a slight difference between malls and department stores but the former was even better than the latter. Enough customers were attracted to these malls to keep a section of retailers focused who could earn profits and turn the inventory over. However, their product lines are deeper. Malls essentially aggregated category focused retailers in one premise. Catalogue retailing brought about a similar transformation. As more and more customers discovered that shopping could be much easier by purchasing through mail, it resulted in the appearance of numerous specialty catalogues. The increased mobility of shoppers due to the advent of automobiles resulted in the emergence of discounters at all possible

locations. These discounters were also opened in the downmarket locations like the outskirts of a city where the competition with the shopping malls would be negligible.

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In the early phase, they focused on products that were simple and their sale did not require the assistance of salespersons which decreased the cost of servicing the customer. About 80 per cent of the floor area was concentrated on selling hard goods that were branded like hardware, packaged personal care products, kitchenware, etc. The hard goods department was shut down with the emergence of department stores. They started retailing soft goods such as home furnishing, clothing and cosmetics with complex attributes that cannot be communicated simply. Since it was not easy to sell the soft goods in low-service discount format, high profits continued to accrue to department stores, leaving them in a flourishing state. Replicating the pattern of department stores, most of the discounters had to leave the hard-goods market and are now concentrating on soft goods.

- **Internet retailing**

The fourth disruption in retailing was the internet. Internet retailing offers immense price flexibility. The ease with which the customers can traverse various sites in order to select the product of their choice makes it easier for retailers to display their products on the internet in a focused manner. The specialists will have an edge over generalists if cybermalls come into being. They will be like physical shopping malls. The movement towards soft goods is more precarious. Per se internet is not a good medium to sell soft goods. However, if internet retailers also operate physical stores to work in conjunction with the internet ones, it would work.

Novelty in the process offered to the shopper

The way a store facilitates a shopper to make his choice of products and brands, the way he is able to access the items in the store, and the way he makes his payments, determine a customer's satisfaction with a store. However, a customer does not want a similar treatment for all his purchases and on all occasions when he visits the store. For some products, his choice of brand may be very clear and a salesperson's attempt to help him would only irritate him. For some other products, the same customer would solicit help of salespersons in making a choice of brands and would welcome a salesperson's attempt to influence his purchase. For some purchases, the customer would like just his favourite brand to be placed prominently on the shelf. But when he does not have a clear brand choice he would not mind some clutter on the shelves because he wants all the brands to be available. Most customers would prefer to be allowed to pay their bills as early as possible but on some occasions they would be more tolerant of delays than on others. Customers would be finicky about delays in making payments when they are rushing home after office but they would be more relaxed during their weekend shopping trips.

While it is not easy to distinguish between customers and their purchase occasions, the retailer will have to make judgments about the expectations of a customer when he walks into the store. It will be a good idea to allocate particular salesperson to a customer i.e. when a customer walks in he is always served by a particular salesperson rather than different salespersons depending on what he proposes to buy. Such salespersons specialize in a product category and assist any customer who is interested in the category. Under the new arrangement all salespersons would have to know enough about all the product categories but would know more about the purchasing behaviour of a set of customers allocated to him.

Novelty in the product/product assortment offered to the shopper

A retail shop has to be known for being of a certain type. A store may be famous for being very prompt in stocking the latest or the most fashionable product. Another may be known for stocking all possible variety in a category and yet another may be famous for stocking the most premium brands. A store would become too unwieldy if it tries to have too many different types of assortments. A store which stocks the latest products in a category will also be able to stock the most premium brands of the category but the attention of the company will be divided and it will be difficult to handle relationships with diverse suppliers whose business philosophies are different. Such a strategy will also send conflicting signals to customers as to what the store really stocks well.

Store location

For a lot of shoppers, the most important criteria for shopping is convenience. Therefore, the location of a store can have a major impact on the sales. Retailers have to come to a decision on what areas they will cover. The matter does not end here. They also have to decide on which towns and cities they will target within a region and where their stores would be located within a particular town.

The criteria for choosing a town is how well it targets the customers, what is the per capita income in that town, how suitable are the sites for the location of the stores and the level of competition with the rival stores. There are many factors which would decide the choice of a particular site like the volume of traffic in a given area, how big is the parking space in that area, if the retailing store can merge with other retailing outlets. If two rival retailers decide to combine their outlets, they will be able to attract more customers.

More than proximity to customers, the location of a store is important in terms of how often the target customers are likely to visit the site as they live their lives. The lifestyle of the target customers and the goods and services that they buy will decide whether they will visit the site or not and how often. Being in the place where the customer will visit in pursuance of his lifestyle will ensure that the customer will walk into the store. This aspect is important because customers are combining purchases of different genre of goods and combining purchases of goods and pursuance of entertainment.

Product assortment and services

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Retailers have to come to a decision on how wide and deep would their product range should be. A store selling food, drinks and toiletries may widen its product range to include clothes and toys. Within each product line, it can choose to stock a deep or shallow product range. While some retailers opt for stocking one deep product line, the other retailer's range may be broader and include toys, cosmetics, jewellery, clothes, electrical goods and household accessories. It is generally seen that some retailers make a beginning by introducing one product line. They broaden the range of their products on a gradual basis in order to earn maximum profit. Petrol stations start out as fuel providers and expand by adding provision stores or food outlets to maximize the revenue that can be obtained from the customer. Some stations on the highway may also add a Cineplex to make their retail outlet a one-stop entertainment and utility centre for the customer. The retailer will choose the range of product depending upon how he positions himself strategically, expectation of customer, and how profitable each product line is. Another issue for consideration is own-label branding. Retailers who are large may sell an assortment of products with their own labels on them as well as those of other companies.

Degree of service can vary from customers being expected to search their items to elaborate displays and suggestions from sales personnel. Retail outlets for expensive items like cars provide elaborate services in the form of product displays, test drives and arrangement of loans, whereas in a discount store, customers would have to select their items, sometimes from heaps of merchandise. Service levels have to be higher when customer knowledge levels are low; expertise is required to buy the right product (that the customer lacks) and the products are expensive (money spent in relation to customer's disposable incomes are high). The retailer can also use service levels as a means of differentiating his offer when the product assortment is similar to those of competitors. For instance, a cosmetics store can employ its personnel as grooming advisors to help a customer choose relevant products from the store.

Other Retail Selling Strategies

The other retail selling strategies are as follows:

- **Price**

There are different strategies adopted by the retailers to sell their products.

In some instances, the retailers take recourse to massive cost cutting to achieve high differentials. In other instances, retailers prefer keeping their everyday prices low. Customers favour low prices of products as a matter of routine rather than sporadic money off deals.

Some other stores sell basic items like bread and soft drinks which do not require much investment in packaging. However, despite the 'no frill' nature of

their products, customers frequent their stores. It appeals to the price conscious shopper who wants standard products at low prices.

Some retail items may be priced very competitively to generate more demand for other items. Such products may often be sold below cost and are called 'loss leader'. The idea is that the customers get attracted to the low price of the 'loss leader' and walk in the store to buy the item but may end up buying many more items. The items chosen for inclusion should be widely known and bought on frequent basis.

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- **Promotion**

The retailers can promote themselves by effective advertising, publicity and public relations. The objective of the retailers is to etch their store in the minds of customers. Advertisements are designed and special events are staged in order to promote their stores.

A store's opening is an affair to be remembered. It is a mix of glitz, glamour and powerful advertising to attract a customer. The advertising can be at both national and local levels. Although different retailers can advertise nationally but locally, the retailer should resort to providing precise information about his store such as its location, the products it is selling, its closing and opening time and the prices at which its products are sold. In contrast, national retail advertising generally focuses on image. A popular retail advertising practice is cooperative advertising. Under cooperative advertising, manufacturers pay retailers to feature their products in store mailers or the manufacturer develops a TV or print ad campaign and includes the name of the retailers carrying the product at the end.

Many retailers are avoiding media advertising in favour of direct-mail or frequent shopper programs. The frequent shopper programs offer perks ranging from gift certificates to special sales for most frequent shoppers. Direct-mail and catalogue programs may be a cost effective method of increasing store loyalty and spending by core customers.

- **Store atmosphere**

Creating a store atmosphere is all about choosing the right design, colour and layout of the store. The atmosphere of a store is created by how its exterior and interior looks like.

The image of the store should be consistent with what is sold in that store. For instance, a kids' store is usually bright, vibrant (may be in the shape of a Mickey Mouse) and should be adequately colourful to attract the child and enthuse him to buy things at the store. Such a store should generally have a lot of space for the child to move around and explore his world. Even the salespeople should match the child's temperament. They should be playful. The interiors should be spacious to prevent the customers from getting claustrophobic. A well-lit store with a pleasing interior and music playing in the background will attract customers.

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Total customer experience

Total customer experience in a retail store is a combination of finding the right products, conveniently, at the right prices, in a suitable ambiance and in a manner that the customer enjoys the whole experience. The retailer may lose the customer due to the absence of any one of these elements.

The retailing world is brutally competitive. No retailer can afford to be complacent because of previous successes or bright predictions about future. The key to success in retailing is to focus on total customer experience. The retailer has to offer customers superior solutions to their needs, treat them with respect and connect with them on an emotional level. The retailer also has to set prices fairly and make it easy for customers to find what they need, pay for it and leave. These practices sound simple but they are extremely difficult to implement.

- *Understand customer needs* - It has become customary for companies to talk about selling solutions rather than products or services. In retailing, focusing on solutions would mean employing salespeople who know how to help customers find clothing that fits, having tailors on staff, offering home delivery and accepting whatever way the customer chooses to pay. Store organization is another key in providing superior solutions. The merchandise should be organized in sections that make sense to the way customers use and configure products. Therefore, all appliances and other items which are used in kitchen should be kept at one place. Many products would have to be displayed in several sections because they can solve a variety of problems. Great service is another component of a store's ability to solve customer's problems. The retailer should be very careful about hiring. He should wait till he finds a right person for a position. Store employees should be trained to demonstrate how products work and propose solutions to customer problems. Employees should be treated well both in terms of pay and in other ways. The idea, in sum, is to understand what people need and then figure out how it will serve the need.
- *Respect customers* - Most retailers insist that they treat their customers with respect but customers always have stories to tell about disrespectful retailing. Disrespectful retailing is demonstrated by bored, rude and unmotivated service workers, cluttered and poorly organized stores, lack of signage, confusing prices and others factors. Retailers will have to institute practices which will ensure that customers are treated with respect. The salespersons appointed in the store should be competent, courteous and energetic. They should be able to deal with the customers effectively and persuade them to buy the products of their store. The customer should not be discriminated on the basis of race, age, gender, appearance or size of purchase. Barnes & Noble's respect for the customer has translated into stores with spacious and comfortable interiors, easy chairs for relaxing with books and Starbucks coffee bars.

- *Emotional connect* - Retailers have been trying to compete on price. If a retailer offers a low price, a customer may find it reasonable to buy the product but he may not be able to make an emotional connect with the product. At this juncture, the retailer may lure the customer by praising his product and how useful it will be for the customer. In case of a product like furniture, the retailer may promise to deliver it at the earliest to the customer and should try to convince the customer over the fact that the furniture being bought will be able to make the house of the customer more attractive. The emotional involvement of a customer with a product like furniture may not be possible if they do not see the product for weeks. Retailers regardless of the product he sells should develop feelings of faith and trust among his customers. Every customer is psychologically connected to a retailer who might precisely remember his choice or who provides him a substitute item before the original item is sent back for repair or replacement or who provides a rocking ambience. Thus, retailers should try to connect with the customers much beyond the rational appeal for a product.
- *Price* - Prices are about more than the actual money involved. If customers suspect that the prices are not fair, they will not feel comfortable in making purchases. Moreover, retailers have been giving enough reasons to the customers to be suspicious about the price that they may be being charged. Retailers have been known to halve their prices within a week. There have been no genuine markdowns even when new sales prices have been advertised. Competitor's prices have often been misrepresented on price-comparison within stores and there is a prevalence of many of fraudulent practices. Retailers should try to minimize or eliminate customer worries about manipulative pricing. They should adopt the principle of 'everyday fair pricing' rather than that of 'everyday low pricing'. After all, no retailer can ensure that the prices in his store would always be low. And 'lowest price' tag may make the retailer complacent towards providing value adding services. He might start feeling that he is already providing what the customers care about, which is low price, and may thus ignore other factors that customers truly care about. Retailers must realize that price does not equal value which is what a customer experiences totally. Products in their stores should be sold at regular but competitive prices and sales that are genuine should be held. The retailer should make it convenient for the customer to compare his price with those of its rival brands and hidden charges should be avoided at all costs. If there is decline in demand, the retailer should refrain from the temptation of increasing the price of his products. They should stand by the products they sell by offering liberal warranties and allowing product returns without much fuss. They can also offer price protection for a limited period. Customers should have the confidence that the retailer would give them just the right product and it would be cost effective.

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- *Convenience to the customer* - Retailers waste customer's time and energy by having confusing layouts, inefficient checkout operations, inconvenient hours of business and other such practices. When shopping is inconvenient, the value of a retailer's offering goes down. Slow checkout is particularly annoying. A retailer may save some money by closing a checkout lane but he may have lost many customers in the process. To ease the customers' shopping experience, retail location and operating hours must be convenient. They must maintain a high rate of in-stock items and expedite delivery. Major traffic aisles should be free of passage-blocking displays. Navigational signs hanging from ceilings and at the end of aisles should point in the right direction to help shoppers. Items should have their particulars like size and other specifications clearly and visibly pasted on them. Retailers should keep the option of opening another checkout lane as soon as more than a specified number of customers wait in any lane. Customers should be able to identify and select desired products easily and should be able to complete transactions quickly.

These principles and practices look deceptively simple. But it will require plenty of courage and conviction to implement them truthfully.

Retail Selling

Management interventions, like training and coaching, will be required to improve retail selling. There is a huge scope to improve retail selling. Customers complain that the salespeople lack interest and are ineffective in serving them. This is a serious situation not only for the retailers but also for the manufacturers and distributors who use this channel to move their products to the market. It results in lower sales per salesperson, which in turn means increased expenses and necessitates high margins if the retailer has to make a profit. The resultant high retail prices put the stores, and thus the manufacturers who use the stores as outlets at a competitive disadvantage.

Retailers regard themselves as purchasing agents for their customers and are focused on having the right products, at the right price, at the right place and at the right time. Store executives focus their attention on selecting and buying suitable products from the appropriate sources, placing them in convenient locations, and then informing the customers of the availability of the products via advertisements and displays. However, the purchasing and promotion is conducted in relation to customers as a group, not as individuals. Therefore, a store catering to customers in the high income bracket will provide goods of high quality or list prestige items, while a store catering to customers in the middle income group will provide less expensive goods. Over a period of time, each store develops a character of its own which customers remember for the type of goods they expect to find there.

It is not enough to purchase for such broad groups. There is much that must be done on an individual basis. Each customer has some personal or family needs for goods, either a definite need or a need that is not yet recognized. Retailers

have to interpret and satisfy the differing needs of thousands of customers. Salespeople with following characteristics will be better at interpreting and satisfying the differing needs of the customers:

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- Interest in the customer, expressed in a courteous approach and a friendly attempt to determine his needs.
- A thorough knowledge of the goods available and imagination and resourcefulness in selecting the items best suited to particular individuals.
- Tact and understanding in helping the customer make up his mind.
- A gracious manner of closing the transaction which will not delay the customer but will impress him with the interest that the store has in serving his needs.

Some customers wish to do their own selection and do not want to be bothered by salespeople but many others need and appreciate help from salespeople. Salespeople should be able to size up situations and give help where it is desired.

Some customers are ill-mannered and treat the salespeople shabbily. It is difficult for salespeople to be friendly to such customers. Some customers come in convinced that they will not be able to find the right goods and as a result will demonstrate a defeatist attitude. This discourages the salespeople from trying to find the desired goods for them. Such situations are cumulative. The effect of one nasty customer on a salesperson is reflected in subsequent poorly handled transactions. Store executives cannot do much about such customer attitudes but the salespeople can be provided training to be patient and understanding with such customers.

Management's attitude towards the salespeople and their work is very important. Management has to believe that salespeople are human beings with intelligence and emotions. Simple matters like asking them what selling points of a new product could be, rather than telling them the selling points they should use, helps to build confidence in the salespeople.

Training of salespeople is concerned with the preparation of a wide variety of sales check and the operation of the cash register. They also may be advised of the importance of finding out all that they can about the goods in the store, in learning their selling points and how to keep the store in order. Salespeople may be tempted to believe that once they know the clerical details of closing a sale they become consummate salespeople. To counter such arrogance, new salespeople should be attached to experienced salespeople as their apprentices. The new salespeople learn about the goods in the store, the regular customers and how to sell to different types of customers from their experienced counterparts. It is important that the experienced salespeople take real interests in teaching and developing their wards. For this to happen, they should get adequate rewards and compensation for their role as trainers.

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Daily or weekly meeting of salespeople with the store's executives should be mandatory. Such meetings can be used to provide information on new goods that may be anticipated, to discuss common customer complaints or new ways of selling. Such meetings help to build camaraderie in the workplace and keep salespeople interested in the happenings of the store. Otherwise, boredom of retail selling will suck all enthusiasm and motivation from their work.

Sometimes, individual coaching may become essential. Inferiors selling skills may result from a lack of understanding what the selling job really entails, inadequate knowledge of the goods, wrong work attitude and shyness. The assigned coaches will have to be empathetic and help the salesperson improve rather than dictate improvement measures to him. A bad coach will do more harm than good and should be trained in the methods of coaching before becoming a coach.

Wholesaling

A wholesaler is an individual who serves as an intermediary between manufacturer and retailer to facilitate the transfer of products or the exchange of title to those products, or someone who sells products to manufacturers or institutions that resell the products. The functions of a wholesaler are:

- **Bulk breaking function:** This consists of buying products in relatively large quantities and selling in smaller quantities.
- **Bulk accumulating function:** This consists of buying small quantities of a particular product from many small producers and then selling the assembled large quantities.
- **Selling function:** This consists of classifying accumulated products as to grade and size, and then group them accordingly.
- **Assorting function:** This consists of combining products purchased from several manufacturers to create assortments.
- **Buying function:** This is associated with making a purchase and thus affecting the transfer of ownership of goods.
- **Service function:** This consists of activities that increase the efficiency and effectiveness of the exchange process. Repair services and management services are examples of such services.
- **Credit function:** It consists of providing credit to another member of a distribution channel.
- **Risk taking function:** This means assuming the responsibility for losses when the future is uncertain.

Check Your Progress

4. State the different types of retail formats.
5. What are the different functions of a wholesaler?

8.6 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

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1. To minimize conflict in channels, a marketer can segment the products in different markets and identify and set up exclusive or limited territories.
2. Channel management deals with the selection of different channels of distribution and making them functional.
3. Hypermarkets are characterized by very large retail space that are leased out to various brands. Hypermarkets have several single brand stores in many of the product categories.
4. There are different types of retail formats such as department stores, speciality stores, supermarkets, convenience stores and discount stores.
5. The different functions performed by a wholesaler include: bulk breaking function, bulk accumulating function, selling function, assorting function, buying function, service function, credit function and risk taking function.

8.7 SUMMARY

- Distribution corresponds to the fourth ‘P’ of the marketing mix, that is, place.
- Distribution channels are the link between producers and customers.
- A marketing channel helps in getting the product to the customer. Some of the common methods are direct sales and sales through a reseller. A direct sale happens via the phone, the Net or mail. An indirect channel sale typically refers to sales through a reseller.
- Companies can choose both indirect and direct channels of distribution. However, companies should avoid channel conflicts at all costs.
- The choosing of channels of distribution are often determined by the ability to recruit resellers, product type, market dynamics, price point, customer requirements and ability to manage resellers
- Channel management deals with the selection of different channels of distribution and making them functional. Selection depends on distribution structure and choice of specific channel members. Effective functioning of channels requires maintaining cordial relationships and minimizing conflicts.
- The six C’s of marketing are Consumer, communication, cost, competencies, competitiveness, and commodity.
- One major issue which affects channel decision in marketing is of coping with differences. There are three major differences in channel decisions—retail concentration, channel length and channel exclusivity.

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- Retailing is the set of activities related to the sale of products and services to the ultimate customer. Companies carry out market research to know a customers' attitude towards their products but the customers' real intent are displayed only during the process of buying in retail stores.
- There are different types of retail formats such as department stores, speciality stores, supermarkets, convenience stores and discount stores.
- The different elements of the physical distribution system are customer service, order processing, inventory control and warehousing.
- Different methods have been identified for improving the customer service are: improving the product availability, improving the order cycle time, raising information levels and raising the flexibility in operations.

8.8 KEY WORDS

- **Retailing:** Retailing is the selling of products and services to the customer. A business is set up specifically for the purpose of selling individual unit or small lot of goods to large number of customers.
- **Distribution channel:** A distribution channel refers to the intermediaries through which a good or service passes before it reaches the final customer. It can include wholesalers, retailers, distributors and the internet.
- **Channel management:** It refers to the selection of different channels of distribution and making them functional.
- **Credit function:** It refers to the function of a wholesaler wherein the wholesaler provides credit to another member of a distribution channel.

8.9 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Write a short note on channel exclusivity.
2. What are the six C's in marketing?
3. Write a short note on the selection of an appropriate channel.
4. What do you understand by product assortment?

Long-Answer Questions

1. Explain the different types of distribution channels. Support your answer with suitable illustrations.
2. Discuss the various factors influencing channel decisions.
3. Discuss in detail the different types of retail formats. Give examples for each type.

8.10 FURTHER READINGS

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BLOCK - III
MARKETING MIX

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UNIT 9 PHYSICAL DISTRIBUTION OF GOODS

Structure

9.0 Introduction
9.1 Objectives
9.2 Physical Distribution of Goods, Transportation, Warehousing and Order Processing
9.3 Inventory Control
9.4 Answers to Check Your Progress Questions
9.5 Summary
9.6 Key Words
9.7 Self Assessment Questions and Exercises
9.8 Further Readings

9.0 INTRODUCTION

Choosing the right distribution channels is extremely important in order to ensure that the targeted customers receive the product in the right form. The different elements of the physical distribution system are: customer service, order processing, inventory control and warehousing.

It is useful to visualize the inventory of a medium-sized business organization. The inventory would comprise thousands of items, each item with different usage, price, lead-time and specifications. In order to escape duplicate ordering and overstocking, many selective inventory management techniques are based on a thorough analysis of the items that constitute the inventory. It is often prudent to classify inventory so as to improve response time and bring the relevant issues within the capability of the supply chain partners.

The use of class systems makes the effort to manage inventory more effective and efficient than if the organization managed each individual item independently. In this unit, we will study the physical distribution of goods and inventory control.

9.1 OBJECTIVES

After going through this unit, you will be able to:

- Describe the different elements of physical distribution

- Understand transportation warehousing and order processing
- Understand inventory classification and its usefulness

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9.2 PHYSICAL DISTRIBUTION OF GOODS, TRANSPORTATION, WAREHOUSING AND ORDER PROCESSING

Physical distribution refers to how goods move from manufacturers to intermediaries and the consumer. The decisions regarding channel and physical distribution are interconnected but channel decisions are taken earlier. If the physical distribution is effective, it saves cost and improves the level of customer service. A company can save money if they reduce inventory levels, use modes of transport which are cheaper and ship in bulk. The retailers can better their service to customers by delivering quickly and reliably. They can have a higher inventory which will enable the customers to choose from a wider range of products. This will also reduce the chances of a stockout. There will be fast order processing and it will be ensured that products are right qualitatively and quantitatively.

The physical distribution can only be managed if a balance between cost reduction and meeting customer needs is maintained. Trade-offs are often necessary. It is no doubt that low inventory and economical modes of transport reduce the cost but the level of service to the customers and their degree of contentment also declines. Maintaining this balance is an important marketing decision because physical distribution is likely to provide competitive edge.

Analysing the market in terms of customer service needs and price sensitivity will reveal two segments:

(i) Low service needs, high price sensitivity

(ii) High service needs, low price sensitivity

It is important to define the target market segment and design an appropriate marketing mix. In industrial markets, large companies may have their own salesforce but smaller ones may have to rely on the services of a distributor and be willing to pay a higher price for it.

Apart from the trade-offs between customer service levels and physical distribution costs, conflicts or disputes between elements of physical distribution are also possible. On the one hand, inventory management may prefer low stocks in order to bring down costs but on the other, this may cause a stockout which may lead to rise in costs elsewhere. As a result of faster aircraft deliveries, freight management may need to accept higher costs. Low cost containers may reduce packaging costs but increase the cost of goods spoilt in transit. Therefore, physical distribution needs to be managed as a system with close supervision of the entire process. This is because order processing needs to be coordinated along with

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inventory and transport decisions. It is important that a single manager manages the physical distribution of a company and prevents managers from managing individual functions such as transportation, maximizing their performance and causing harm to the overall efficiency and effectiveness of the system. The physical distribution manager should be able to resolve the conflicts that are intrinsic to the system to minimize the total cost in accordance with the required levels of customer service.

Elements of the Physical Distribution System

(a) Customer service: What level of customer service should be provided?

(b) Order processing: How should the orders be handled?

(c) Inventory control: How much inventory should be held?

(d) Warehousing: Where should inventory be located? How many warehouses should be used?

(e) Transportation mode

(f) Materials handling: How will the products be handled during transportation?

Customer service

Customer service is the percentage of orders that are filled in time. It is important to set standards of customer service. Some standards should be set for how the customer will be served. For instance, it should not take more than forty-eight hours to deliver ninety per cent of orders. If the figure is raised to 100 per cent they should be delivered within seventy-two hours. If the standards are raised it means a rise in costs. This also requires higher inventory levels and faster means of transportation. The management responsible for physical distribution should be conscious of the costs of living up to the service standards of the customer.

- For some customers, consistency in delivery is more important than how quickly the order is actually delivered to them.
- The suppliers may be chosen on the basis of the level of standard of providing service to customers.

Methods of improving customer service

(i) Improve product availability: Maintain higher stock levels, deliver on time and have the right assortment of products.

(ii) Improve order cycle time: Shorter time should be taken to deliver the goods whose order has been placed. A consistency has to be maintained between the time of order and the date of delivery.

(iii) Raise information levels: There should be an improvement in the information of salespersons' regarding inventory and order status. Customers should be notified promptly if there is a delay in the delivery of their order.

(iv) Raise flexibility: A contingency plan should be developed for orders that require urgent delivery. A structure should be in place to ensure quick reaction to problems that are least expected like product return.

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Order processing

The idea is to reduce time between the placement of order by customer and the delivery of the product. A computer link between the order department and the salesperson is effective. Computers can also check the customer's credit rating and if the product is available, an order can be placed to the warehouse. Through the computer link, the customers can be invoiced and the inventory records can be updated.

Some basic questions can reveal areas for improvement. What happens when a sales representative receives an order? What happens when it is received in the order department? How long does it take to check inventory? What are the methods for checking inventory? Delineating the steps that will be followed in the above situations will reveal gaps in the process to fulfil a customer order. The levels of customer service can be enhanced by plugging these gaps.

Inventory control

Since inventory incurs cost, those who manage the finance of the company want to minimize stocks. But marketing wants large inventories to prevent a stockout situation. A balance has to be struck has to be struck between the rising costs of inventory and increasing standards for customer service.

Stocking all items that a customer is likely to order would be costly for the company. The problem can be solved by categorizing the products into two groups. While one group would comprise products whose demand is high, the other group would comprise orders whose demand is low. The standard of service for those products that are more in demand is high while those which are less in demand command a low standard of service.

There are two major inventory related decisions. These are when to order and how much to order in order to replenish stocks. In order to avoid a stockout, inventory should be replenished before the stock becomes zero. The reason for this is that time is needed for the placement of order and delivery of the inventory. The more variable the lead time, the greater will be the fluctuation in customer demand during the lead time and higher will be the safety of buffer stock that the company will be required to keep to prevent a stock-out. The amount of safety inventory for a product should be related to variability in its demand. The higher the variability in demand from one time period to another, the higher should be the safety inventory for that item.

Small, frequent orders raise order processing costs because more orders have to be placed but reduce inventory carrying costs because a smaller average inventory is held. (The average inventory held throughout the year is equal to half

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of the order amount. When the frequency of orders is increased, the order amount is reduced.) Large infrequent costs raise inventory costs but lower processing expenditure. The trade-off is the EOQ (Economic Order Quantity). We will discuss inventory control in detail in the next section.

Warehousing

It refers to storage of goods from the time they are produced to the time they are delivered to the customer. Warehousing involves breaking bulk, assorting products in order to deliver them to customers, their storage and loading. Goods can be kept in storage warehouses for a period that can be moderate or long. The centrally located distribution centres enable the goods to move fast retail stores.

These days it is common for the distribution centres to be heavily mechanized. Orders are read by a computer with the fork lift trucks under its control to gather goods. These goods are then transferred to loading bays. Warehousing strategy determines where the warehouses would be located and how many warehouses are required.

Transportation of goods on time and without damage

A company can use any one or a combination of the following means for transporting their goods:

- **Rail:** Large and bulky goods that need to travel for large distances can be efficiently transported by the railways. However there is a lack of flexibility in using the rail as a mode of transport. In this case, additional cost is incurred for transporting goods to the rail depot by a lorry.
- **Road:** This is flexible because the companies and warehouses are directly accessible by the road transportation. Goods can be transported from the suppliers to the customers without having to unload them enroute.
- **Air:** The goods can be transported speedily particularly the perishable items. However, it is an expensive mode of transport and there is a problem of carrying the goods from the manufacturers to the air terminals and then to the intermediaries or the retailers.
- **Water transportation:** This is sluggish but costly. It is used to transport heavy, cheap and non-perishable goods. In case of water transportation too, goods need to be moved by road to and from docks.
- **Pipeline:** This is a dependable means for transporting liquids and gases. It requires low maintenance. However, the construction of pipelines is costly and takes a lot of time.
- **Warehousing:** It involves all activities required in the storing of goods between the time they are produced and the time they are transported to the customer.
- **Economic Order Quantity**: It means the order quantity that minimizes total inventory holding costs and ordering costs.

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9.3 INVENTORY CONTROL

Recent industry reports show that inventory costs as a per cent of total logistics costs are increasing. Despite this rise, many organizations have not taken advantage of the ways to lower inventory costs. Much of the cost in inventories is due to:

- Too much of wrong stuff
- Not enough of right stuff
- Unawareness of obsolete material
- High shrinkage rate
- Low turnover rate
- Excessive expediting/staging
- Ineffective scheduling

The control systems can also be classified depending on their characteristics. Based on characteristics, there can be different types of systems. The most common are the following:

- Classification models
- Periodic review (fixed-order period)
- Two–bin system
- Perpetual or continuous review (fixed-order quantity)
- Modified control systems
- MRP and DRP systems and
- Fair share allocation

Classification Models

Material items can be classified based upon their commercial importance, demand patterns (regular, sporadic, etc.) and supply reliability (of both raw material suppliers and own manufacturing), sources of supply and modes of handing.

However, the most popular classification method used, especially in small and medium firms, is ABC classification. This analysis is based on the historical stock levels recorded for the different items. The components that are easiest to control are characterized by high use and low inventories.

As the ABC classification method is generally used in most firms for inventory control, it is based on usage and cost of the inventory item. The system of control of this model is described below:

Controls for Class 'A' Items: All Class 'A' items require close control. However, where stockout costs are high, special attention is required. Raw materials that are used continuously in extremely high volume are often purchased at rates that match usage rates. Contracts are often executed with vendors, with penalty clauses, for

the continuous supply of these materials. Buffer stocks that provide excellent service levels are justified for such items.

Where purchase of inventory items is not guided by either economical quantities or cycles, the items need careful monitoring. It is possible to achieve significant savings by changing the rate of flow periodically as demand and inventory positions change. Minimum supplies should be ensured to guard against demand fluctuations and possible interruptions of supply.

For the balance of Class 'A' items, normally reports are generated on a weekly basis to provide the necessary close surveillance over inventory levels. Close surveillance reduces the risk of a prolonged stock out. Depending upon the inventory system used, time-triggered or event-triggered orders are released.

Controls for Class 'B' Items: These items are generally monitored and controlled by a computer-based exception reporting system. Periodic review by the management is necessary but model parameters are reviewed less often than with Class A items. Normally, stock out costs for Class B items should be moderate to low and buffer stocks should provide adequate control for stock outs, even though ordering may occur less often.

Controls for Class 'C' items: Class C items account for the bulk of inventory items. In many cases, reorder point system is designed such that it does not require a physical stock evaluation, for example using a 'two-bin' system.

It must be kept in mind that 'C' items are not necessarily unimportant. Therefore, controls should adequately cover the requirements for this class of inventory. Semi-annual or annual review of the system parameters should be performed to update usage rates, re-establish supply lead-times and the reorder points. Cost savings might result in changes in EOQ but they may not be significant.

The major advantages of classification systems are as follows:

- To devise methods for planning and control for materials in a class
- To devise purchasing procedures, inspection methods, issuing and storing procedures, to all materials in a class
- To devise accounting and evaluation procedures common to all materials in a class.

Many studies show that companies that use ABC inventory policies or simple weeks-of–supply rules frequently have fifteen to thirty per cent more inventory than they need and lower service levels. Classification models used in combination with mathematical models or new optimization methods derive twenty to thirty per cent reductions in inventory and ten to twenty per cent improvements in time to market. These models are discussed in the rest of this section.

Periodic Review Systems or Time Triggered Systems

Here the inventory is checked at specific points in time. It is a 'time' triggered system; the inventory status is reviewed on a periodic basis and an order is placed for an amount that will replenish inventories to a planned maximum level.

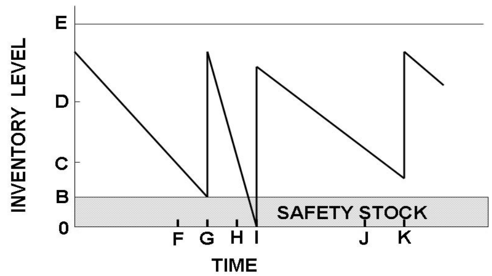


Fig. 9.1 Periodic Inventory System

The model is shown as Figure 9.1. The variable demand is reflected by the slope of the lines. The fixed review period is shown by FH =HJ. The variable reorder points are C = B = D and the variable reorder quantities are shown in Figure 9.1. You will see that E–C≠ E–B≠ E–D. Similarly, the lead-times are variable as FG[1] HI[1] JK. The reorder quantity is E, the inventory level at review period.

The reorder quantity, therefore, varies from one review period to the next. The economic reorder cycle would then be EOQ/R, where R is the annual requirement: for example, if EOQ = 10,000 units and annual requirements are R=120,000 units, then the economic cycle would be 10,000/120,000 = 1/12 or 1 month.

The safety stock is OB. Safety stock needs to buffer also against uncertainty in demand over each period. The long planning interval with its associated demand variation causes more safety stock to be held than in other systems.

Some other advantages of this system are:

- Sometimes makes operating efficiencies possible by reviewing the status of all items at the same time
- Fewer orders are placed
- Purchase discounts more likely
- Lower shipping and freight costs

The periodic system had more appeal in pre-computer days because it does not require continuous inventory records. Inventory holding costs are usually higher than those associated with the continuous review system.

Two-bin Policy

The two-bin policy can be seen as a variant of the reorder point reorder method where no demand forecast is needed and the inventory level does not have to be monitored continuously. This system makes stores clerks happy because no fancy record keeping is needed. They merely open the second bin and place an order. It is usually adopted for inexpensive, fast-moving items. In classification models, this policy is often used for 'C' category items.

It works like this: The inventory is physically separated into two bins, one of which contains an amount equal to the reorder inventory level. Stock is drawn

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from the first bin. For each item, action is triggered when inventories in the bin gets empty. When the inventory has fallen to the reorder point Q, an order is placed for Q units. Stock is now drawn from the second bin. And, the cycle is repeated.

Continuous Review Systems or Event Triggered Systems

These are generally fixed quantity systems. In these systems, we know the inventory held at all times. A perpetual review system controls inventory by reviewing the system daily to determine replenishment needs. It compares the sum of the inventory on-hand and on-order to establish the reorder point.

This is the most robust policy and is optimal under the greatest number of conditions. When inventory falls to *B,* an order is placed. The fixed reorder quantity is AC and the lead-time (DE = FG= HI) is also fixed. However, the time between orders is variable as you will see that DF < FH. The only uncertainty is the magnitude of demand during the lead-time. The parameters that define a reorder quantity system are 'Q', the fixed amount ordered at one time and reorder point.

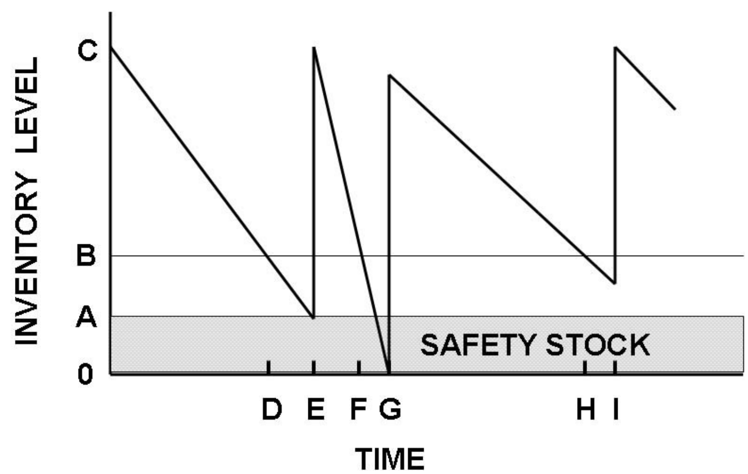


Fig. 9.2 Perpetual Inventory System

The model is shown as Figure 9.2. In this case also, the demand is variable which is reflected in the slope of the lines. This is a complex system and its complexity increases as the operations become larger. It requires accurate accountability and large computing power. Computer aided systems are normally used for proper implementation. Despite its complexity, the advantages of perpetual systems are:

- Efficient, meaningful order size
- Safety stock need for lead-time only
- Relatively insensitive to forecast and parameter errors
- Less attention on slow moving items

Some disadvantages arise out of this:

- Clerks may set order quantities
- Lot sizes, reorder points, and safety stocks must be revised

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- Delays in posting transactions
- Errors and mistakes in transactions
- High freight and transportation charges
- Fewer chances for dollar value discounts

These systems require the inventory level to be under sufficiently close surveillance so that notice can be given when the reorder point has been reached.

Material Requirement Planning (MRP)

Material requirement planning (MRP) is appropriate when inventory planning is primarily required for items with dependent demand or for determining inventory requirements in a multiple plant/warehouse environment.

MRP methods use a common information base to coordinate inventory requirements across multiple locations or across different stages in the value-added chain. Planning activities may occur at the plant to coordinate inventory allocation and delivery to multiple distribution centres or to coordinate inventory requirements across multiple channel partners such as manufacturers and retailers.

There are a number of proven strategies that will provide payoff in the inventory area, both in customer service and in financial terms. Some of these strategies involve having fewer inventories while others involve owning less of the inventory you have. MRP and information technology solutions have been able to provide solutions, not only for inventory management but also for aggregate planning, material requirement planning and operations scheduling.

MRP is a three-step process:

(i) Identifying the requirements and setting the basic parameters
(ii) Running the planning
(iii) Implementing the MRP.

If all the three are synchronized well, the MRP run will give accurate results which can be implemented.

Distribution Requirements Planning (DRP): DRP is defined as distribution requirements planning, which includes determining labour, equipment, and warehouse space requirements.

DRP is usually used with an MRP system, although most DRP models are more comprehensive than stand-alone MRP models and can schedule transportation. The underlying rationale for DRP is to more accurately forecast demand and then use that information to develop delivery schedules. This way, distribution firms can minimize inbound inventory by using MRP in conjunction with other schedules.

DRP may be used for both distribution and manufacturing. In manufacturing, DRP will work directly with MRP. There are some constraints to the use of DRP systems.

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First, DRP systems require accurate and coordinated forecasts for each distribution centre. The forecast is necessary to direct the flow of goods through the distribution channel with forecasts for each distribution centre and SKU as well as adequate lead-time to allow product movement. Forecast error can be a significant concern when forecasts are used to guide inventory-planning systems.

Second, DRP requires consistent and reliable performance cycles for movement between distribution facilities. Variable performance cycles are accommodated through safety lead-times but performance-cycle uncertainty reduces planning system effectiveness.

Fair Share Allocation: Fair share allocation is a simplified inventory management planning method that provides each distribution facility with an equitable or 'fair share' of available inventory from a common source, such as a plant warehouse.

The first step is to establish business rules that prioritize locations or customers and define fair share logic. Using fair share allocation rules, the planner determines the amount of inventory that can be allocated to each distribution centre from the available inventory at the plant warehouse.

The limitation of this system is that while it coordinates inventory levels across multiple sites, fair share allocation does not consider site-specific factors, such as differences in performance-cycle time, economic order quantity or safety stock requirements. Fair share allocation methods are, therefore, limited in their ability to manage multistage inventories.

Modified Control or Optional Replenishment Systems

Control systems sometimes combine regular review cycles and order points. In such systems, stock levels are reviewed on a periodic basis but orders are placed only when inventories have fallen to a pre-determined reorder level. Such systems combine the advantages of 'event' triggered and 'time' triggered review systems. These have the lowest total costs. Regardless of which technique or solution one employs, there are two important issues in inventory control: order quantity and order timing.

Choice of System

The proper choice of control systems is extremely important. Proactive inventory management practices make a measurable difference in operations and reduce inventory costs. In addition, they significantly impact the burden due to:

- Ever-increasing storage space needs
- Slow-moving materials
- Disposition of scrap, obsolete, and surplus materials
- Transaction recording errors
- Misplaced materials

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However, in order to be effective, the inventory control system should provide satisfactory answers to three questions:

1. How often should the assessment of stock on hand be made?
2. When should a replenishment order be placed?
3. What should be the size of the replenishment order?

The answers to these questions should determine the system used to control inventory.

The following facts describe the important differences that determine the choice of the system that should be used.

1. Perpetual systems are expensive to operate and maintain but if economically justified, IT provides the best control parameters.
2. Periodic systems require less manpower to control compared to perpetual systems. In perpetual systems, each item must be counted as it is issued or demanded. In periodic systems, physical inventory count is taken only at the end of the period. This system is especially good for fast moving raw materials and supplies.
3. Periodic systems require less calculating time than perpetual systems. In the event triggered system, each issue or demand from stock must be recorded and accounted for. Systemic costs, i.e. the costs of running the system are generally less with the time-triggered system.
4. Periodic systems may require more buffer stock to protect against uncertain demand and lead-time. The reorder time is often non-optimal as it is fixed either weekly or monthly and not based solely on economics, resulting in higher physical inventory costs.
5. Periodic systems run the risk in more stock outs when unusually high fluctuation in demand occurs. When one or successive periods of unusually large demand occur, perpetual systems can react more quickly because it keeps track of net inventory with each unit demanded.
6. Materials Requirement Planning is based on several assumptions. When those assumptions are incorrect, you can have more problems controlling the system. While MRP approaches to inventory management offer significant benefits, there are some constraints to their effectiveness, primarily based on the assumptions made in these models:
   - *Capacity is infinite:* It assumes that we can produce anything as long as we have material at the right time. This is a major flaw. In a manufacturing set up, capacity is a constraint most of the times and capacity is always finite. Having enough material at the right time is no guarantee that schedule can be met without any delay.
   - *Lead-times are constant:* MRP systems are based on lead-times schedules that are either forward scheduling or backward scheduling.

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The major assumption here is lead-times are constant. Are the lead-times really constant? How frequently are they reviewed to validate whether the lead-times are still valid? How much of safety is loaded into these lead-times? What are the basic assumptions with which they were initialized? Answers to some of these questions are necessary as lead-times have a cascading effect as the material gets converted from raw material to finished products.

- *Accurate stock status/on order status:* MRP accuracy depends on accuracy of stock status. Therefore, the assumption is the perpetual inventory status matches with the actual on hand quantity: for example, if the purchase orders' due dates get modified over phone or fax and the system does not get updated. The problem gets compounded because of the pegging used in MRP calculations.

7. MRP starts with independent demand for the end products. If there is uncertainty, there should be a provision for incorporating that uncertainty into the planning.
8. The MRP response time is a measure of how quickly the shop floor can implement changes and update the transactional data. It is not always easy for the firm or the entire chain of suppliers to respond to MRP recommendations promptly. Therefore, it is often prudent not to plan for all materials through MRP. Response time should dictate how frequently you should run MRP and how many items should be included for planning run. Each change or response is also a cost to the company and needs to be taken into account.

Check Your Progress

1. State the different elements of physical distribution.
2. How can the customer service be improved?
3. What are the ways of classifying material?
4. List one advantage of the classification system.

9.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The different elements of the physical distribution system are: customer service, order processing, inventory control and warehousing.
2. Different methods have been identified for improving the customer service. These are improving the product availability, improving the order cycle time, raising information levels and raising the flexibility in operations.

3. Material items can be classified based upon their commercial importance, demand patterns (regular, sporadic, etc.) and supply reliability (of both raw material suppliers and own manufacturing), sources of supply, modes of handing.
4. One of the major advantage of classification systems is:
    - To devise methods for planning and control for materials in a class

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9.5 SUMMARY

- The different elements of the physical distribution system are customer service, order processing, inventory control and warehousing.
- Different methods have been identified for improving the customer service are: improving the product availability, improving the order cycle time, raising information levels and raising the flexibility in operations.
- Material items can be classified based upon their commercial importance, demand patterns (regular, sporadic, etc.) and supply reliability (of both raw material suppliers and own manufacturing), sources of supply, modes of handing, etc.
- As the ABC classification method is generally used in most firms for inventory control, it is based on usage and cost of the inventory item. All Class 'A' items require close control. Class 'B' items are generally monitored and controlled by a computer-based exception reporting system. Class 'C' items account for the bulk of inventory items.
- In Periodic Review Systems or Time Triggered Systems, the inventory is checked at specific points in time.
- The two-bin policy can be seen as a variant of the reorder point reorder method where no demand forecast is needed and the inventory level does not have to be monitored continuously.
- Continuous Review Systems or Event Triggered Systems are generally fixed quantity systems. In these systems, we know the inventory held at all times.
- A perpetual review system controls inventory by reviewing the system daily to determine replenishment needs. It compares the sum of the inventory on-hand and on-order to establish the reorder point.
- Material Requirement Planning is appropriate when inventory planning is primarily required for items with dependent demand or for determining inventory requirements in a multiple plant/warehouse environment.
- Distribution Requirements Planning (DRP): DRP is defined as Distribution Requirements Planning, which includes determining labour, equipment, and

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warehouse space requirements. DRP is usually used with an MRP system, although most DRP models are more comprehensive than stand-alone MRP models and can schedule transportation.

- Control systems sometimes combine regular review cycles and order points. In such systems, stock levels are reviewed on a periodic basis but orders are placed only when inventories have fallen to a pre-determined reorder level. Such systems combine the advantages of 'event' triggered and 'time' triggered review systems. These have the lowest total costs.
- The proper choice of control systems is extremely important. Proactive inventory management practices make a measurable difference in operations and reduce in inventory costs.

9.6 KEY WORDS

- **Warehousing:** It involves all activities required in the storing of goods between the time they are produced and the time they are transported to the customer.
- **ABC Classification:** This analysis is based on the historical stock levels recorded for the different items.
- **Two-bin Policy:** The two-bin policy can be seen as a variant of the reorder point reorder method where no demand forecast is needed and the inventory level does not have to be monitored continuously.
- **Distribution Requirements Planning (DRP):** Distribution requirements planning includes determining labour, equipment, and warehouse space requirements.

9.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the questions that an inventory control system should answer in order to be effective?
2. What is the basis on which compliance of products and services are checked?
3. Write a short note on Periodic Review Systems.
4. What do you mean by material requirement planning (MRP)?

Long-Answer Questions

1. Describe the various inventory classification models.

2. Explain the significance of inventory control and warehousing.
3. Discuss in detail the inventory control system.

9.8 FURTHER READINGS

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UNIT 10 PROMOTIONAL MIX AND ADVERTISING MANAGEMENT

NOTES

Structure

10.0 Introduction
10.1 Objectives
10.2 Promotion: Methods of Promotion
10.3 Optimum Promotion Mix
10.4 Advertising Media: Merits and Limitations
10.5 Characteristics of an Effective Advertisement
10.6 Answers to Check Your Progress Questions
10.7 Summary
10.8 Key Words
10.9 Self Assessment Questions and Exercises
10.10 Further Readings

10.0 INTRODUCTION

To sell a product, marketers seek to grab the attention of customers. The effort is more pronounced when you know your target audience/market. Customers largely ignore unsolicited advances from marketers. The marketers, hence, can choose from the various tools, such as, advertising, sales promotion, public relations, sponsorship, word-of-mouth promotion, exhibitions and direct marketing to spread the message. A marketer's challenge is to devise the appropriate communication mix that will serve his purpose. This unit will talk about the methods of promotion and optimum promotion mix. It is also important to find out whether the advertising campaign is successful. This unit will also discuss the advertising media and the characteristics of an effective advertisement.

10.1 OBJECTIVES

After going through this unit, you will be able to:

- Explain the various methods of promotion
- Understand the optimum promotion mix
- Describe the merits and limitations of advertising media
- Discuss the characteristics of an effective advertisement

10.2 PROMOTION: METHODS OF PROMOTION

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Businesses use various tools to create awareness about products and services they offer. The most frequently used and effective tools are advertising, personal selling, sales promotions, direct marketing and public relations. These instruments of marketing are called promotional mix. The main aim is to spread the word or publicize the existence of the product or the services. If customers are not aware of the availability of the product, survival for the business will become difficult as rivals would rule the market.

Hence, choosing effective promotional mix is vital to ensure that the business generates sales and profit. In the process, the company will stimulate the target audience to buy the product. It can be used to increase sales, attract new customers, encourage customer loyalty, encourage trial, create awareness, inform, remind potential customers, reassure new customers, change attitudes, create an image, position a product, encourage brand switching, and so on. It is important to understand that a business will use more than one method of promotion. The variety of promotional methods used is referred to as the promotional mix.

Sales Promotion

Sales promotions are incentives to consumers or trade that are designed to stimulate purchase. A customer has to be made to believe that he is getting more value for the money he is spending than he would have gotten otherwise if the sales promotion was not in operation. Sales promotion schemes serve to signal the arrival of a time-period in which customers will get the value that they were getting earlier by spending less. In typical consumer promotions, companies reduce the price for a limited time period or offer more quantity for the same price or offer extra items or gifts or prizes with the purchase. Discounts and incentives are some of the trade promotions. Companies have to operate sales promotion schemes in a way that customers do not start equating the product with low-priced brands.

Growth of sales promotion

Vast amount of money is spent on sales promotion. Global expenditure on sales promotion is equal to media advertising. Sales promotion is growing because of several reasons:

- Consumers have increased impulse purchasing due to their rising income and proliferation of products. The retail response to greater consumer impulse purchasing is to demand more sales promotion from manufacturers to push their brand. Customers' propensity to purchase on impulse receives further impetus when they see an item on sale.
- Sales promotion used to be employed by fringe players to get some market share from established players because they could not afford to advertise in the mass media. The established companies did not retaliate because they

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believed that it would devalue their brands and also because they believed that their customers were too sophisticated to fall prey to such manipulations. But the customers did trade loyalties for lower prices and however much they disliked the idea, the established companies had to retaliate by offering their own sales promotion schemes. Iconic brands are routinely using sales promotions to lure customers of rival brands, and sales promotion has gained acceptability among consumers. Sales promotion has become a respectable promotional tool. Consumers no longer look down upon companies who use it to increase awareness among customers and garner market share.

- It has become expensive to advertise and advertising clutter has increased to the extent that viewers remember the contents of an advertisement, but do not recollect the name of the advertised brand. Advertising in the mass media has become prohibitively expensive and all the lead players are advertising profusely. Customers cannot tell one ad, and hence one product, from the other. Marketers are realizing that advertising is doing no more than keeping them in this contest and is not influencing purchase decisions. By withdrawing money from advertising and putting it in sales promotion, marketers hope to get tangible and immediate results in the form of increased sales.
- The attraction of boosting sales in a short period of time increases due to intense competition and shortening product life cycles. Most industries face intense competition among equally mighty competitors. There is parity in the offerings of the competitors and customers do not prefer one offering over another. Under such situations, sales promotion schemes manage to swing customer purchases. Product life cycles are shortening due to frequent technological breakthroughs and rapidly changing customer requirements. It becomes imperative for companies to realize as much sales as possible during the brief existence of the product. Sales promotion, used to increase sales in short spurts, is very useful.
- In some markets, sales promotion is used so often that all competitors are forced to follow suit. If a company launches a sales promotion scheme and the scheme is not contested by competitors, the company will gain sales at the expense of competitors. Competitors do not allow such a scenario to evolve. They launch their own schemes and each competitor eats into the sale of the other depending on the attractiveness of their schemes. At the end of one such sales period, the competitors' sales remain where they were at the beginning of the period. In most markets, sales promotion has become a countervailing measure to thwart attempts of a competitor to garner sales by launching a sales promotion scheme.
- The effect of sales promotion is direct and lasts only for a short time. Therefore, when a company launches a sales promotion scheme, it is able to measure its impact on sales. Growing use of electronic point of sales scanner information by retailers makes measurement of sales much easier.

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It is easier for sales promotion managers to justify their budget. They are able to show immediate returns on their investments in sales promotion schemes.

Sales promotion objectives

Sales promotion provides extra value that encourages purchase. When it is targeted at consumers, the intention is to motivate consumers to buy the product. When it is targeted at trade, the intention is to motivate distributors and retailers to push the product.

A company may need to increase short term sales to reduce its inventory, meet its sales targets, move stocks of old model prior to its replacement and motivate consumers, distributors and retailers to stock its products in advance of the launch of a competitor's product. These are very legitimate business goals and a company should not shy away from using sales promotion to achieve them. It is seen that sales promotions that give large immediate benefits such as money-offs or bonus packs increase sales more than distant promotions such as competitions. But, sales promotion should not be used as means to cover up more fundamental inadequacies such as an inferior product or poor positioning because even when a consumer buys a product once due to it being on sales promotion, he will not buy again if the product does not have differentiating features and benefits.

(i) Encourage trial

Customers may be induced to buy a new brand because of the extra benefits such as price-offs or free gifts associated with its buying. If the buyers like the brand, the long-term effect of the promotions may be positive. They will continue to buy the brand. Customers also spread positive word-of-mouth publicity since they are pleasantly surprised to find the product good, when they did not expect it. Customers like to talk about products which they accidentally discover to be good. Strong brands can be created through this method as more customers buy the product on their friends' recommendations. They too find the product good and spread good word about it.

Sales promotion schemes like price-offs or free gifts induce customers to buy a new brand. They may also be given out as gifts with established brands as a part of the latter's sales promotion endeavour. Promotions which simply give more products as bonus packs are less successful in promoting new products since consumers place much less value on extra quantity until they have decided they like it.

(ii) Encourage repeat purchases

An offer which requires collection of packet tops or labels attempts to raise repeat purchase during promotional period. For products like detergent powders, a pack will be used over a long period. It is difficult to keep the customers motivated enough to keep collecting the labels and present it for redemption. For products

which can be consumed in rapid succession, i.e., the product is purchased frequently, the scheme can be successful. Children have been found to become obsessed with collecting labels especially if the reward is some cool possession, like Pokémon cards.

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(iii) Stimulate purchase of larger stocks

Promotions that are specifically linked to larger pack size may persuade consumers to switch from less economical smaller packs. But when customers buy large pack sizes, they do not necessarily consume more. The large pack size lasts for another time period and customers do not buy the product in the next time period. There is sharp decrease in demand and the manufacturer faces the problem of idle capacity. This problem is in addition to the problem that the company faced in meeting the big surge in demand when the scheme was on. Manufacturers should always remember that per unit cost of production is minimum when the production is carried out at a uniform rate throughout the year. Per unit cost of production goes up when the production rate is varied.

(iv) Gain distribution and shelf space

A manufacturer gives allowances to distributors and retailers to gain distribution and shelf space. The manufacturer offers discounts, free gifts and joint promotions to encourage distributors and retailers to stock its brands. Consumer promotions that provide a large incentive, also motivate distributors to stock the product, because they expect larger number of customers to buy the product.

(v) Enhancing brand image by using sales promotions

Astute promotional offers can enhance brand image in the long term. While some promotions are clearly profit yielding for companies, others may apparently be loss making schemes. Companies usually evaluate the short-term impact of sales promotions. If the promotional offer does not work well, they may jump to the conclusion that a particular scheme is a loss-making proposition and thus withdraw it from the market. The effectiveness of a promotional offer should not be evaluated only in the short term and it should not be evaluated on the basis of incremental sales alone. Most promotional offers lead to a peak in sales during the offer period and a steep decline later. Managers tend to attribute this trend to deal-prone customers who switch brands once the promotional offer gets over. However, stock piling by consumers could be a reason for a depression after the surge in sales. However, the sales graph for the long term (say up to two years after the promotional offer) is seldom studied. The promotional offer could have caused brand adoptions among a certain percentage of new customers in the long run. Thus, by evaluating the sales in the long run, the number of additional customers can be ascertained in a better way. The impact of different promotional offers on such long-term increase in sales can also be studied to judge effectiveness.

Even if the promotional scheme did not result in incremental sales to the extent planned by the company, it may have enhanced brand value. Sales promotions are popularly perceived to have a negative impact on the brand image. Contrary to such popular perceptions, well-planned promotional offers often create brand recognition, awareness and recall. These may prompt consumers to include the brand in their consideration set for later purchase. In order for a promotional offer to enhance brand image and improve its value in the mind of the consumer, the offer needs to be adequately supported by advertising. Non-price based promotions are likely to be better at enhancing brand reputations.

Major sales promotion techniques

Promotional offers can be targeted at consumers or at distribution channel members. Usually, companies employ both these methods to garner larger sales gains. Incentives given to channel intermediaries induce them to push the company's products to consumers, and promotions aimed at consumers encourage them to try the company's products rather than the competitors' products.

Consumer promotion

Consumer promotions are the offers that are given to end consumers. These may be price based offers, such as money offs, or non-price based offers such as gifts, samples, coupons, and so on.

(i) **Money off:** The brand is offered at a lower price than what it normally sells for. Money off provides direct value to consumers and hence they get an unambiguous incentive to purchase. Money offs have a proven track record of increasing sales and this is the most popular consumer promotion tool. But price reductions can be easily matched by competitors, and if used frequently, it can devalue brand image due to its association with low price for long periods of time. If the brand sells at a lower price for a considerable period of time, customers will associate the brand with the lower price. And when the company terminates the sales promotion scheme, the original price will seem high as customers have gotten used to buying at the low price.

(ii) **Bonus packs:** The company gives added value by giving consumers extra quantity at no additional cost. Since price is not lowered, there is lesser risk of devaluing brand image. With some product groups, like cold drinks, it encourages buyers to consume more. Bonus packs are useful when the product is consumed over a period of time. Customers notice when a pack of detergent powder which normally lasted ten days, lasts for a few more days. And with such experiences to fall back on, they will go for the bigger packs because they know that it will be useful. But with products like chocolates, which are consumed in one go, the consumer might not know the difference between consuming a normal pack and a slightly bigger one. Bonus packs will be useful for such products if a separate pack containing

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the extra quantity is offered. Even for goods which are consumed over a period of time, a separate pack containing the extra quantity will be more useful than stuffing the extra quantity in the same pack.

(iii) **Premiums:** A premium is merchandise offered for free or at low cost with a brand as an incentive to consumers to purchase the brand. There are two types of premiums:

- Free in or on pack gifts: They are given away free with brands. The premium is a free sample of any new brand that is related to the brand so that consumers get a chance to try it. Free sample may be a new variety or flavour which customers can try and eventually come to like it. The purpose of the sales promotion scheme may actually be to induce consumption of the new brand so that consumers develop a good perception about it. But an unknown brand will not do much to increase the sale of the brand for which the sales promotion is ostensibly held. Some consumers may not even need the particular flavour or the product.

  Companies can offer common generic products, like some quantity of sugar, as the free item. Such products are unambiguous gifts to the consumers as they are needed in all households. If brands, like a tube of toothpaste, are offered as gifts, there will be the problem of whether the customers like the brand enough to consider it an inducement.

- Free in the mail offers: The scheme involves collection of packet tops or labels by customers which are sent in the mail as proof of purchase to claim a free gift or money voucher. Redemption can be very low as consumers collect labels with a view to mailing but are never able to collect the requisite number, and even when they are able to collect the requisite number, they may be too lazy to mail them. Most customers will not be patient enough to collect labels, for the small financial benefit that the scheme may offer. For such schemes to really catch on, the collecting of labels has to be projected as being 'cool' or the thing to indulge in. The customers should be exchanging notes as to how many the other has been able to collect. To create such a mass hysteria, the company has to promote the scheme in a big way and big rewards should be offered. It will be useful if celebrities are associated in the promotion of the scheme. Such schemes for children can be very successful. A smart scheme which incorporates the latest cool possession of the children's world will be successful even without promotion.

(iv) Free samples: Free samples may be delivered at consumers' homes or given out in the store. The idea is that when customers try the sample, some of them may like it, and they may start buying it. This is an expensive but effective way of getting consumer trial, but may not result in consumers buying the product if does not have differentiating features and benefits.

(v) Coupons: A customer receives a product upon presenting a coupon. Coupons can be delivered to a customer's home which is very effective to achieve trial

for a new brand. Another way of delivering a coupon is by putting it in a print medium such as a newspaper or a magazine. A customer is expected to cut out this coupon and claim redemption. Therefore, the effectiveness of this method is less than the home couponing method. The third method of couponing is the on-pack method, wherein a coupon is attached to a package of a product. This method is used to not only stimulate trial, but also stimulate repeat purchase. The coupon may be for the same brand, or it may even be used to initiate trial or repeat purchase of some other brand of the company. The on-pack coupon can be more efficient and effective for the company than simply price-offs as the coupon induces the customer to try and repeat purchase. However, its ability to induce initial purchase is lower as compared to a price-off, as it does not give any incentive on the first purchase. So, this type of couponing works best for existing customers of the brand.

(vi) Competitions: Competitions require customers to exhibit certain degree of skill and judgement. They may be asked a few simple questions or solve some simple puzzles. The customer must buy at least one unit of the product to gain entry to the competition. The competition does not offer an immediate incentive to purchase the product, unlike a money-off, premium, or a bonus pack. Therefore, it is more difficult to use the competition as an incentive to induce the customer to make a purchase, unless the competition is particularly appealing. There is some customer scepticism while participating in a competition, as they tend to underrate their chances of winning. Some companies try various measures to increase the chances of a customer winning in a competition. For instance, they may try to increase the number of prizes to reassure customers that they have a better chance of winning. A well-designed competition can draw away the attention of the customer from a price-based sales promotion and can ensure that the brand image does not get damaged. It can also enhance the brand image in the long run.

(vii) Draws: A draw is a sweepstake where there is a random chance that a customer will win a prize. Just as in a competition, the customer can participate in a draw upon the purchase of a product. But unlike a competition, the customers' intelligence is not involved in this method. For instance, a customer may be asked to fill up a form while buying a product. The forms collected from all the customers may be put in a drum, and three could be picked from the lot. Just as in a competition, customer scepticism runs high in this method. Customers tend to perceive that their luck is not good and that they cannot win in random draw of lots or any other method. Some marketers assure that all customers will win some 'assured gift,' though a few will win the jackpot.

Trade promotions

Trade promotions are offers or schemes given to channel intermediaries. They can be price based, such as quantity discounts, or non-price based, such as allowances.

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(i) Price discounts: The trade, that is, retailers and wholesalers may be offered discounts in return for purchasing and keeping the manufacturer's brand. Large retailers buy in bulk and are able to extract discounts from manufacturers. The discount may be part of joint promotion whereby retailer agrees to devote extra shelf space, buy larger quantities and allow in-store promotions.

When a company gives a discount and the retailers return the favour by allowing in-store promotion or by devoting extra shelf space to the brand, it is a fair game. But when a manufacturer gives price discounts to keep the retailer in good humour and to protect its brands from being put off the shelves, it only makes the retailers more brash and greedy. The most powerful of retailers will keep brands that consumers want to buy and treat manufacturers of such brands with respect.

Manufacturers also offer price discounts when retailers buy in large volumes. Such schemes are not helpful to manufacturers. The retailers buy and store for future time periods. The manufacturers have to incur extra cost in manufacturing the extra stock and their facilities remain idle when the retailers do not buy in the next time period as they already have stocks. The net result is that the manufacturer's per unit cost goes up. The solution is that the manufacturer should provide discounts only for quantities that the retailer manages to sell above the average sale he has been managing in previous time periods. The retailer will have to exert effort to manage extra sales if he wants to avail the discount. The retailer only buys the quantities that he can manage to sell. The manufacturer does not face spurt in demand from the retailer.

(ii) Free goods: The retailer is offered more merchandise at the same price. The scheme ultimately translates into the manufacturer offering price discounts, with its accompanying pitfalls.

(iii) Competition: The manufacturer offers financial inducements or prizes to the distributor's sales force in return for achieving sales targets for its products. Besides increasing sales for its products, the manufacturer is able to wield some influence over distributor's salespersons. Salespersons may show loyalties towards products of such manufacturers and push their products. But the manufacturer should ensure that the distributor is a part of the deal. It should not happen that the distributor and his salespersons want to promote products of different manufacturers, with the distributor promoting products of a manufacturer who gives him more margins and the salespersons pushing products of a manufacturer who gives them inducements for selling his products.

(iv) Allowances: The retailer is given money for promoting the brands of the manufacturer. The retailer may plan special displays in the store wherein the manufacturer's brands are prominently visible. The manufacturer may also pay an advertising allowance to the retailer to showcase his brand in the advertisements of the retailer.

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Compensation Plans

The different types of compensation plans for sales persons are as follows:

1. Straight salary
2. Salary plus commission
3. Commission only
4. Profit margin

Evaluation of Salesmen Performance

There are several methods that can be used to evaluate the capacity, talent and overall performance of salespersons in a company. The most common methods used to evaluate the performance are through

- Sales Target
- Sales Territory and
- Sales Report

Check Your Progress

1. What is a promotional mix?
2. What is sales promotion?
3. What are the objectives of sales promotion?
4. Identify some of the sales promotion techniques?

10.3 OPTIMUM PROMOTION MIX

Most companies erroneously focus almost exclusively on advertising to convey their messages. But there are companies like Body Shop, which have been able to build strong brands and garner large market shares without any advertising. They have used other methods of communications like publicity, sponsorship, and word-of-mouth promotion to convey their brand ideas. The question is not whether a company should primarily rely on advertising or any or more of other communication methods like sales promotion, publicity, sponsorship etc. The real issue is how a company can use all possible or some communication methods holistically so that it is able to convey ideas and messages that register in the minds of customers and make an impression. Most of the time a prudent mix of communication methods will leave a more lasting impression in the customers' minds than any one method alone. A marketer's challenge is to devise the appropriate communication or promotion mix (advertising, sales promotion, public relations, sponsorship, word of mouth promotion, exhibitions, and direct marketing) that will serve his purpose. Therefore it becomes important to understand other methods of marketing communication besides advertising.

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Sponsorships

A business relationship in which funds, services and resources are provided by an organization to an individual or event or an institution in exchange of certain rights and associations that may be used for commercial advantage. Sponsorship allows a business to demonstrate its affiliation to the individual, event, or the organization that it has chosen to associate with.

The patrons or enthusiasts of the sport, event, organization, or the individual that the business is sponsoring should be current or prospective customers of the business and they should feel grateful to the business for helping out their favourite individual, event, sport or organization. The idea of sponsorship is to develop strong relationships between the business and its customers due to their common ties with the sponsored individual, event, sport, or the organization.

Objectives of sponsorship

- **Gaining publicity**

  Sponsorship provides scope for publicity in media. Major world events related to sports like cricket, golf, tennis are covered by the media. Millions of people watching these events across the world are exposed to brands that are sponsoring the event. Sponsorship of music, performing arts, and sports events is particularly effective because it can reach out to more and more people.

- **Fostering favourable brand and company associations**

  Sponsoring a mega event like Olympics or Soccer World Cup ensures almost instant international recognition. There is huge amount of prestige associated with sponsoring such big events and the sponsoring companies' credibility soars up. They are considered as big as the events they are sponsoring as it is known that big money is involved in sponsorship deals of such events. A company advances to the big league as soon as it associates with a mega event.

  But a company can also foster favourable brand associations by sponsoring special events like some arts or some charities. The patrons of the events will start seeing the sponsoring company favourably.

- **Improving community relations**

  Sponsoring an event or an organization which will help the community where the event is being organized or where the organization functions is always a good idea. If a company sponsors schemes associated to schools or colleges like setting up computer laboratories, its image and reputation among its customers is enhanced. Striking a strong relationship with the community should be the aim of all companies. There are usually many such opportunities to help a community. Two or more companies can join hands to sponsor a program beneficial to the community where they are based.

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- **Creating promotional expenditure**

  A company sponsoring an event can distribute bags, caps, pens, T- shirts, etc. with their logo embossed on them for the occasion. This creates awareness among people about the company. Flags and banners bearing the name of the company and the event can be displayed at the site of the event and outside to boast of the association. This is especially important when there are many companies sponsoring the event. It is important that the company takes leverage of the association between itself and the event by promoting the association aggressively. In case a company sponsoring an event is promoting a food item such as potato wafers that can be consumed on the spot, the targeted customers get an opportunity to test the brand and form an opinion about it.

Expenditure on sponsorship

Expenditure on sponsorship is increasing due to:

- Restrictive government policies in some products, such as prohibition on tobacco and alcohol advertising
- Rising cost of advertising in media
- Increase in leisure activities and sporting events
- Greater media coverage of sponsored events
- The reduced efficiency of traditional media advertising
- An event may be sponsored by one company but coverage of the event may be sponsored by some other company.

Selection

Sponsorship can be a one-off deal or a continuing association. While the promotional leverage from sponsorship is important, it is more crucial to assess the impact that the association will have on the perceptions of the customers and other stakeholders towards the company.

Selection of an event or a program to sponsor should be undertaken by answering a series of questions:

- ***What the company wants to achieve from the sponsorship deal***

  Is the company looking for increased brand awareness? Or does the company want to improve its image or its community relations? Is it looking for entertainment opportunities for its customers and employees? The choice of the individual, the event, or the organization that the company will sponsor should be governed by what it wants to achieve from the sponsorship deal. If the company wants increased brand awareness, it should get associated with mega events like Soccer World Cup. If it wants to improve its relations with the community it is a part of, it should a sponsor a literacy program for

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the locality. If the company wants to improve its image, it should sponsor a dying art or an event which would not take place if the company does not pitch in.

- ***Personality of the event should match the desired brand image***

  It is easy to get enticed by the promotional opportunities of mega events but if that is all that the company is looking for in a sponsorship deal, it will be better off putting the money in advertising. It will at least have more leverage in deciding how to spend the money in advertising than it has when it puts the same money in a sponsorship deal. Sponsorship should be used to shape the personality of the sponsoring company. If the company sponsors a prestigious golf tournament the motive should be to bestow an image of exclusivity to the company. The company should be very clear about the type of image that it wants to portray and then associate with an individual, an event, or an organization that has a similar image.

- ***Target market***

  The profile of the company's customer base should match the likely audience of the sponsored event or program. One of the most important objectives of a company entering any sponsorship deal is to influence its customers. This can only happen when the enthusiasts of the sponsored event are also the customers of the company. The enthusiasts of the event should feel grateful to the company for having sponsored their favourite event or sport.

- ***Risk***

  What are the chances that the event or program might attract adverse publicity? The sponsoring company should dig deep into the individual, the event or the organization and other associations. And as soon as the skeletons in the cupboard of the sponsored event, individual, or the organization are out, the sponsoring company should publicly declare discontinuance of the relationship between the two. Any dithering on the issue would damage the interests of the sponsoring company. The company should try to ensure that its stakeholders are not hurt because of its association with the individual, the event, or the organization.

Evaluation

Understanding sponsorship objective, i.e. why an event or program is being sponsored, is the first step towards evaluating its success. Formal measurement of media coverage and name mentions and sightings, and the change in perception of the company's stakeholders have to be undertaken.

It is important that there is a formal system to find out the gains from a sponsorship deal. It is often convenient to believe that gains would have accrued from the association with the event. It is also important to qualify the gains for the company in terms of whether it primarily gained awareness or improved its relationship with the community. The results of the evaluation process will be useful

when the company is considering a sponsorship deal in future or when it has to decide the continuation or termination of a sponsorship deal

Exhibitions

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Exhibition is the only promotional tool that brings buyers, sellers and the competitors in a commercial setting. Since customers have to spend time and money in attending an exhibition, customers who attend an exhibition are interested in the product. In that sense, exhibitions as a promotional tool are extremely targeted i.e. only the intended audience gets the message. Exhibitions are usually designed to create a form of mass hysteria. Some exhibitions are annual affairs and attract a lot of media attention which helps in attracting more customers and also more exhibitors.

They are very expensive as only a small number of customers can be accommodated in an exhibition. Also, space is very expensive in popular exhibitions and there is a lot of expenditure on logistics.

Exhibitions are an important part of the industrial promotional mix. Exhibitions as a source of information in industrial buying process is second only to personal selling and ahead of direct mail and print advertising.

Overall, the number of exhibitions, exhibitors and visitors is growing.

Objectives of exhibitions

- *An opportunity to reach an audience with a distinct interest in the market and the products on display*

  Though organizers of exhibitions insist on creating hype so that numbers of visitors to the exhibition increases, it is always better to have customers who are genuinely interested in the product even if they are small in number. The cost per customer is very high in exhibitions. It is very important that personnel in the stall handles only genuine customers and their contact time should not be wasted on casual visitors.

- *Creates awareness and develops relationship with new prospects*

  There is a face-to-face contact with customers and the marketer has an opportunity to apprise the customers of the company's products. The marketer should qualify his visitors in terms of their interest in the product so that they can be pursued after the exhibition.

- *Provides product demonstrations*

  The customer has an opportunity to see the product in operation. He can determine if it will be useful to him. He can also seek clarifications about the product's features and benefits.

- *Determines and stimulates needs of customers*

  Product demonstration is very effective method of stimulating needs. When a customer sees the benefits of a product, the needs that he might have

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been suppressing or those that he was not aware of, can manifest. Many visitors who may have walked in with only casual interest become genuinely interested in the product. Since customers come in direct contact with marketers, it is possible to judge the intensity of customer's needs.

- *Gathers competitive intelligence*

  Competitors' products are also displayed in the exhibition and it is easy to study the features and benefits of their products. It is also possible to meet employees of the competitors and learn more about their marketing plans.

- *Introduce a new product*

  Exhibition is very good place to get customers' feedback about a new product. Customers can use the product or see it in operation and provide immediate feedback to the company. The company can also find out how the new product compares with the competitors' products.

- *Recruit dealers or distributors*

  Distributors interested in handling the product inevitably attend the exhibition. Manufacturers can establish contact with them at the exhibition. This is especially important for new manufacturers who do not have much idea of the market and hence are not aware of the distribution arrangement of the market. Even for established manufacturers, exhibitions are a good place to recruit new distributors.

- *Improve company image*

  The company comes in direct contact with customers and distributors. Company has an opportunity to impress its customers and distributors with its preparation and arrangement of the event and the demeanour of its employees. A shoddy and mismanaged stall will leave the customers and distributors guessing about the competence of the company.

- *Deal with service and other customer problems*

  The customers get an opportunity to apprise the company of their service requirements and specific problems that they may be having with the product. Since senior executives of the company are present at the exhibition, this is a good opportunity for them to get a first-hand feel of customers' woes and worries.

- *Make a sale*

  An exhibition is always a good place to book orders from customers though this may not be a major objective of the company. They pay more attention to educating their customers and getting their feedback.

  In no medium advertising, publicity, sales promotion, product demonstrations, sales staff, key management personnel, present customers and prospects join together in a live event. It offers the company an opportunity to impress customers with its operations and products.

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Planning for an exhibition

- *Clear objectives should be set*

  Objectives may include introducing new products, showcasing the company's range of products, recruiting distributors, making sales, etc. It is important that objectives are clear to the executives who are planning to participate in the exhibition and to the executives who will be manning the stall. The design of the stall and the choice and conduct of employees will reflect the objectives that the company has set. For example, if the main objective for participating in the exhibition is to introduce a new product, there should be considerable space in the stall for product demonstration to take place. Design and operations people should be manning the stall who can explain the new product's features and benefits and who can handle queries and problems of customers.

- *Selection criteria for evaluating visitors should be determined*

  Many types of visitors attend the exhibition. While some of them want to see a product in operation, others have problems with the company's products that they are using and want to meet executives of the company to apprise them of the problem. Some of them are interested in handling the company's products as distributors. Some of them are on the lookout for latest technologies and machines which would be useful to them, whereas some stroll in to see what all this noise and crowd is about. It is important to qualify the visitors in terms of their purpose of visit. When the purpose of the majority of visitors is aligned with the purpose of the exhibitors, it is a successful exhibition.

- *Design strategies*

  The managers of the exhibition should have a plan as to who will receive the visitor, who will classify them according to the purpose of their visit, who will register them and obtain information, who will direct them, where would the products be placed, where would product demonstration take place and who would carry it out, who would handle customers' queries, who would maintain the list of leads that have to be followed, and finally how would the visitor exit the stall. The managers should have a mock run of the plan to find loopholes in it. A disorganized stall would leave visitors frustrated as they would not get the right information. The company would not gain from such an exhibition as it will not be able to collect the information that it wants and visitors would have left the stall with a bad impression of the company.

- *Promotional strategies*

  The company should decide as to how it will attract the right type of visitors to the stall. In order to pull people towards the show, they are sent mails or called personally on telephone. Advertising in media also helps to draw people towards the event.

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The following are the characteristics of a good exhibitor:

- Exhibits a wider range of products, particularly large items that cannot be demonstrated on sales call
- Staff is well informed and always in attendance at stand
- Informative literature is available for visitors
- Seating arrangement or office is provided on the stand

Evaluating an exhibition

Quantitative measures should be collected for:

- Number of visitors to the stand
- Number of key influencers and decisions makers who visited the stand
- Number of leads and enquiries generated
- The cost per lead and enquiry
- Number and value of orders
- Cost per order
- Number of new distributors opened or likely to be opened
- Interest generated in new products
- Cultivation of new relationships
- Value of customer query and complaint handling

Word-of-mouth promotion

- *Engender word-of-mouth promotion. Do not leave it to chance.*

  Every marketer understands the power of customers talking well and excitedly about a product or a service. When a customer talks about a product and recommends it to other customers, he is more credible as he is not perceived to have any vested interest in promoting the product. A customer is always willing to talk when he finds a product or service exciting enough to talk about. Word-of-mouth promotion has become an increasingly potent force because customers are now able to connect with large number of fellow customers instantly and simultaneously with the help of new technologies.

  But companies have no clue about when and how customers start talking about the products or services that they have encountered. Most marketers have resigned to the belief that word-of-mouth promotion depends on the whims of the customers and they can do nothing to make the customers talk about their products. But there is a method in the madness and companies would do well to learn how they can engender and manage word-of-mouth promotion.

- When designers conceive and design a product or service, their focus is on satisfying the need of the customers, be it functional or aspirational or anything

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else. Designers do not incorporate features, benefits or styles because they want customers to talk about it. This will have to change. Designers will have to design, incorporate and exaggerate features, benefits and styles which the customers will rave about. The product or the service has to be designed and tested for 'talkability', that is, whether the product has the features, benefits and styles which is going to stir the customers' mind. 'Talkability' of a product or service is not left to chance. 'Talkability' is purposely incorporated in the product or service. For this to happen, a company will have to study customers and find out what will excite them enough to talk about it. Given the value word-of-mouth promotion creates, it is only right to divert some portion of the advertising budget in incorporating 'talkability' in the product or service.

- Not all customers of a product or service talk with the same passion. It is important to identify customers who are likely to talk profusely and with passion and provide the product or service to them early, even free, if they are not forthcoming in buying the product or service. A book publisher would do well to put a text book in the hands of the most meritorious students of a class; a restaurant should invite a well-connected socialite or film star to celebrate his birthday on his premise and a maker of software program would ensure a lot of word-of-mouth promotion if the first copies were distributed to the most sophisticated users. The idea again is to locate customers who are likely to get excited more about the product or the service than others and invest in them. The first customers of a product or service should always be customers who will feel passionately about the product for some reason or the other.
- Customers will talk more if they have the product and believe that everyone cannot have it. It will help if there is a perception among customers that the product will run out of supply or will be phased out. This will not be a gimmick. A company can have a strategy of selling only in limited numbers and only for limited period. Though this strategy may not work for all types of products but since most companies are already launching new or modified products more frequently, the way the new product or service introduction is managed will have to be changed to make it applicable to every product. So, instead of declaring one fine morning that a new model is being launched, the company could have declared at the launch of the current model that the model would be phased out in a particular time, when a new model would be launched. Companies are introducing new models and phasing out old products anyway; they only have to dramatize the events of introduction and phasing out.
- Celebrity endorsement is not creating the buzz it could because customers consider them just high-profile models without any interest or involvement in the product. Endorsement obviously helps. People are interested in knowing about the lives of celebrities – the brands they wear, the way they

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raise their children, the way they celebrate their birthdays, from where they buy gifts for their girlfriends and in other words the minutest details of their lives. If the product or service is seen as a part of the daily life or business of a celebrity, it will be talked about immensely. A company should seek the celebrity to use the product, be seen using it and boast about using it.

- Rankings by credible agencies and experts draw attention of customers. Movies and books are regularly reviewed and customers pay heed to them when they are making their purchase decisions. More and more products and services are being ranked by experts and though there is fear of clutter due to excessive sprouting of such experts and agencies, customers do pay heed to the rankings and opinions of these experts and agencies. It is important to manage these rankings. A top ranking in a list can create a lot of buzz. A company should find out the evaluative criteria of these experts and agencies and make their product or service strong on those criteria. A lot of hype is created when service facilities like business schools, restaurants and hospitals are ranked by credible agencies. Ranking drives lot of business in services like business schools where a wrong choice impacts customers in big way but where customers have no way of knowing about it except from ex-customers who are difficult to track.
- Customers may sincerely want other customers to be benefited in the way they have been benefited. The company will have to channelize the desire of the customers to be benefactors. The company has to organize forums and activities like discussion forums and rallies, where customers can talk and participate and urge other customers to adopt the product or service that they have adopted. Cures for long-standing illnesses can be promoted in this fashion.
- Though word-of-mouth will not harm prospects of any product or service, it is sine qua non for fashion goods. The company will have to be on the look for trends, styles and colours which can become trendy in the future. The company will have to keep up with the trend and the next cool thing when it happens, and not be left behind. Being in with what is a rage will ensure plenty of word-of-mouth promotion.

It is time marketers applied themselves in engendering buzz rather than leaving it to good fortune.

Bloggers can be used by companies to generate positive word of mouth.

Blogosphere is decentralized and ungoverned. It is increasingly influencing people's thinking, activities and choice of products. Bloggers seek social recognition more importantly than the financial gain. Bloggers want to share their thoughts and views with everyone who visits their blog. The more people visit the blog, the more valuable it becomes for advertisers. However, bloggers are careful about associating with corporations as their reputation

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and credibility may be tarnished if they are too blatantly on side of a corporation.

Blogosphere is an intricate blend of content, public relations, advertising, dialogue and marketers should treat this space carefully. It should be understood by marketers that blogosphere is not just a mode for advertising; the marketers can also participate in it. They can take part in the conversation on blogs acquainting the targeted customers visiting the blogs with their products. They can either become bloggers themselves or host bloggers on their web sites, but the credibility of these bloggers will be low initially unless they prove themselves to be not toeing the company line blindfolded.

Rather than being controlled, bloggers should be won over by marketers. All information about the company should be shared with the bloggers and the marketers should promptly take up and solve any negative issue that has been raised by the by the blogger.

Increasing power of word-of-mouth leads to formation of communities of customers. Companies can use this to generate a positive buzz about their offerings.

Customers can connect instantly and simultaneously with large number of people. And customers are eager to let their opinion be known to others. Products and services have been hugely successful without being promoted; their success is based on strong promotion by the customers themselves. On the other hand, some heavily promoted products have also tanked with customers' negative word of mouth. Customers have a huge influence on other people like themselves. There is also a strong propensity among customers to imitate what others are doing. Since today customers are in a better position to know what others are doing, word of mouth has become a very potent weapon. Companies like Harley-Davidson and Mountain Dew Soda are building communities around their products to leverage the influence their customers have on other people like themselves. This is an effective method to channel customers' propensity to talk about their experiences with products and services.

- **Marlboro is strengthening its brand by resorting to buzz marketing.**

  The legendary brand Marlboro is now fifty years old. When the brand had started out, it used mass marketing to reach out to its consumers. The image of the rugged cowboy epitomizing freedom and cool attitude were etched on the memories of consumers. Now, Marlboro is actively using buzz marketing to remain at the top. In the tobacco industry characterized by heavy restrictions on advertising, Marlboro has done an admirable job of strengthening its brand image. This is in contrast to the rest of the industry.
- Its new age tactics include marketing at 'live' events that encourage internet chat, sign-ups for promotional offers, a website where smokers sign up for discounts, price promotions and direct mail. Marlboro has a growing

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database of twenty-six million of its customers who are sent greetings on several occasions besides exclusive offers for various events. Customers do not treat Marlboro as a brand; it is like an exclusive club of which they are all devoted members. The anniversary bash held by Marlboro is a significant event.

- Faithful customers of Marlboro are rewarded with special gifts and trips with lavish spreads that competitors find hard to match. These sweepstakes together with many contests and events sponsored by Marlboro brings the smoking community together. These experiences are shared by loyalists and contests attract a big online community of smokers. Customers get to know each other and become friends. Similarly, news and developments about Marlboro are transmitted to millions of consumers in no time.
- Marlboro also offers several discounts and incentives to retailers. It also focuses on shelf displays and consumer promotions mostly by presenting them with attractive schemes.
- Marlboro patronizes the smoking community and in a world where smoking is increasingly being denounced, smokers feel gratified of the company's efforts to acknowledge them and safeguard their interests. When the world denounces smoking and smokers, Marlboro celebrates smokers and their smoking. There cannot be a better way to engender loyalty.

10.4 ADVERTISING MEDIA: MERITS AND LIMITATIONS

As media costs rise and brands become more sharply targeted, media decisions become important. Two key media decisions are choice of media class (TV, press, radio, outdoor, internet, and phone) and media vehicle (a particular magazine/ programme).

The Media Class Decision

The media planner has the choice of using TV, press (magazine, newspaper, leaflets, inserts), cinema, outdoor (posters), radio, internet, mobile phones, or some combination of media classes.

Five considerations will be taken into account:

- **Creative factors:** The key question is whether the medium allows the communication objective to be realized. If the objective is to position the brand as having high status and aspirational personality, TV would be a better option than posters. If the communication objective is to remind the target audience of a brand's existence, a poster campaign may suffice.
- **Size of advertising budget:** Some media are more expensive than others.
- **Relative cost per opportunity to see:** Target audience may be reached much more cheaply using one medium rather than another. The calculation

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of opportunity to see differs according to media classes which makes comparisons difficult. An opportunity to see for the press is defined as 'read' or 'looked' at any issue of the publication for at least two minutes, whereas for posters it is traffic volume at the site.

- **Competitive activity:** A company can choose to advertise in the same medium as its major competitor does or it can seek to dominate an alternative medium. When a company uses the same medium as its major competitor, it believes that the medium chosen by the major competitor is most effective, and that its major competitor would get a huge communication advantage if it did not advertise in that medium. Therefore, the two largest companies in a product category are almost always advertising in the same medium, and their advertising budgets are high since they seek to outdo each other in grabbing eyeballs.
- The third and fourth players of a product category cannot match the advertising budgets of the two largest players, and hence seek to dominate an alternative medium. For example, if the two largest companies use TV, the third and the fourth players use press where it could dominate, achieving higher impact than if they had used TV.
- Sometimes, retail trade influences the medium that a company selects. Retailers are prompted to stock brands which are heavily advertised in mass media like television. If a new brand has to find shelf space in prominent retail stores, it has to be visible enough to convince retailers that it will sell. Even an established brand has to keep advertising in the mass media, if it has to continue to find shelf space in major retail stores. The fact is that a retailer will stock only those brands that it expects to sell, and the more visible a brand is, the more likely it is to sell.

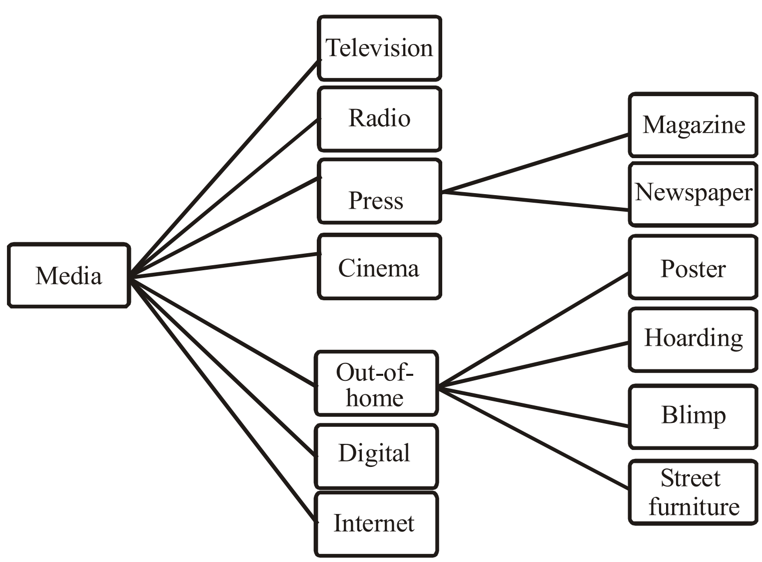


Fig. 10.1 Media

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A company uses more than one medium class to take advantage of their relative strengths and weaknesses. It may use different mediums at different times in a campaign and use different mediums to achieve different communication objectives. When a company launches a new product, it uses TV to gain awareness and to position it. It also uses press to supply technical information about the product. Later, it uses posters to remind and reinforce its earlier messages.

Various media are:

Television

The advertiser can demonstrate the product in action. He can weave a story around the brand, and can endow a vivid personality to the brand–the advertiser's imagination is the only constraint in this medium. The capability of TV to combine colour, movement and sound means that it is often used when brand building is required. An advertisement can be repeated over a short period of time and if an advertisement catches the fancy of its viewers, a brand can become a household name almost overnight. However, TV is a transitory medium and therefore consumers cannot refer back to the advertisement once it has been broadcast.

Press

Factual information can be presented effectively. Readers are in control of how long they take to absorb the information. Readers can re-examine an advertisement at a later date. But an advertisement in press lacks movement and sound and it competes with editorials for reader's attention in newspapers and magazines.

Out-of-home advertising

Out-of-home advertising includes everything from billboards to hot-air balloons. Out-of-home advertising is situational. It can target specific people with specific messages at a time when they are most interested.

Posters

Simplicity is required in the creative work because people will have the opportunity only to glance at a poster. Brand names need to be written in the largest size possible; strong and pure colours should be used and pictures showing the product, its usage or the selling proposition should be used. It is usually used as a support medium.

Cinema

The advertisements benefit from colour, movement and sound. Exposure is high due to the captive nature of the audience. Repetition is difficult to achieve because people visit the cinema only intermittently. The nature of the audience depends on the genre of films being screened, and hence is predictable. Therefore, the choice of brands which should be advertised during screening of a film depends on the genre it belongs to.

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Radio

Creativity is limited to sound. It is better suited to communicating factual information than attempting to create a brand image. Nature of audience changes during the day. The cost of the medium is low.

Internet

The internet is an interactive medium. Users can select the information they want to attend to, and they can contact the company and other users directly. Advertisements on the internet take the form of banner ads, skyscrapers, pop-ups and pop-behinds, minisites and superstitials.

Digital medium

The digital medium has great visual appeal and is close to the point of purchase. It is also an excellent reminder medium. A digital signage can read who is watching it at a particular moment in time, and beam an advertisement that is specific to that person—if he has grey hair, an ad of hair colour will show up as soon as he sets his eye on the signage.

Mobile phone

Companies can send messages on mobile phones of customers. A message can be personalized, or it can be sent to a larger group of customers. If a company can get phone numbers of customers of its target market, mobile advertising can be very effective. Blanket mobile advertising does not help much–customers simply delete the messages of companies whose products they are not interested in.

The media vehicle selection

The media vehicle decision is about the choice of the particular newspaper, magazine, TV spot, poster site, etc. Creative considerations are important in selection of a media vehicle, but a company pays more attention to cost per thousand customers reached. This requires readership and viewership figures, for instance, number of pedestrians that cross the site for posters, actual cinema admissions, number of subscribers of a magazine, number of people watching a TV programme, etc. Calculation of overall cost per thousand customers reached is easy once audience size is known. Media buying is a specialized skill and lot of money can be saved by skilled and powerful buyers.

10.5 CHARACTERISTICS OF AN EFFECTIVE ADVERTISEMENT

Measurement of advertising effectiveness is extremely important. Effective advertisements have a positive impact on the sales of a product. Several clients or advertising agencies may not set stringent standards to measure advertising

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effectiveness because all the players involved have some vested interests. The agency earns money and will hate the idea of being paid only for effective advertisements. The advertising/marketing manager is responsible for the advertising investment and obviously would not like to be told that he has wasted precious resources on an ineffective advertisement. And at the end of the day, even the company may not want to admit that the advertisement was a failure.

Quite often, the likeability of the advertisement is equated with its success. Most companies and agencies believe that advertising can do no harm. At the worst, it may be ineffective. However, research reveals that bad advertising is capable of decreasing sales.

The three relevant questions about measuring effectiveness are what, when and how to evaluate advertising.

What should be measured?

Advertising research needs to ascertain whether an advertising campaign has been successful or otherwise. The measures advertising research uses to determine a campaign's success depends on the objectives the advertising campaign is trying to achieve. A company's advertising objectives may include gaining awareness, product trial, positioning, removing misconceptions, reminding prospects and providing support to salespeople. Advertising research sets targets for each objective and then determines whether those objectives have been achieved. For instance, a campaign may have the objective of increasing awareness from twenty to thirty per cent. If advertising objectives are in terms of sales or market share, advertising research finds out if there has been increase in sales or market share, and if they can be attributed to the campaign. If advertisement objectives includes enrolling new retailers and distributors and motivating current ones to stock more of the advertised brand, advertising research will monitor if new distributors and retailers have signed to stock the brand. It will then find out if the existing retailers and distributors are stocking more than they did earlier and if the changes in attitude of trade can be attributed to the campaign.

However, the objective of advertising is not to merely make people remember or like the advertisements. Recall of advertisements can at best be the first step leading to sales. Sometimes, it may be very easy to create an advertisement with high recall or liking (by using celebrities or other gimmicks), though the ad may be completely useless in generating sales. Therefore, the best measure of effectiveness of advertising is its ability to generate sales (while post-testing) or cause a change in brand preference (while pre-testing).

When and how to measure?

Measurement can take place before, during and after campaign execution. Pre-testing takes place before the campaign is run and is a part of the creative process. In TV advertising, rough ads are created and tested with the target audience. A focus group is shown alternative commercials and asked to discuss their likes,

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dislikes and understanding of each one. Stills from the proposed commercial are shown on a TV screen with a voiceover. This is an inexpensive but realistic portrayal of what the commercial will be like if it is shot. The method provides important inputs from target customers themselves rather than solely relying on view of the advertising agency. However, critics say that the impact of a commercial that is repeated many times cannot be captured in a two hour group discussion. There are campaigns which were rejected by target consumers in pre-tests but were enormously successful when they were executed.

When pre-testing TV commercials, agencies pay great attention to the way in which the advertisement communicates to its limited target audience. Attitudes to the brand, copy comprehension and measurement of interest created in the brand by the advertisement are monitored by the agencies.

Press advertisements are pre-tested using folder techniques. If two advertisements are being compared, two folders are prepared containing a number of advertisements with which test ads will have to compete for attention. The test ads are placed in the same position in each folder. Two matched samples of around 50–100 target consumers are given one of the folders and asked to go through it. Respondents are then asked to state which advertisements they have noticed (unaided recall). They are then shown a list of advertised brands and asked such questions as which one was most liked, which was least disliked and which they intended to buy. Attention is gradually focused on the test advertisement and respondents are asked to recall its content.

Once the campaign has run, post testing can be used to assess its effectiveness. Checking how well an advertisement has worked can provide the information necessary to plan future campaigns. Image/attitude changes, statistical analysis of sales data, usage rate and changes in usage are popular TV post testing techniques. Image/attitude change is a sensitive measure that is a good predictor of behavioural change. Agencies which favour actual sales measures argue that despite difficulties in establishing cause and effect, sales change is the ultimate objective of advertising, and therefore is the only meaningful measure. Recall is also popular, despite evidence suggesting that recall may not be a valid measure of advertising effectiveness. But if the advertisement is seen and remembered, it is reassuring to the client, though it may only measure effective media planning and execution than suggesting any increase in sales.

In press advertisements, spontaneous recall of a brand name can be measured before and after a press campaign. Readers of periodicals in which the advertisement appeared could be asked to recall the advertisements they saw. And specific questions can be directed at the test ad and its content. Press ads that incorporate coupons to promote enquiries or actual sales can be evaluated by totalling the number of enquiries or value of sales generated.

It still may not be possible to measure the real effectiveness of an advertisement because other communications are reaching the customers

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simultaneously and it is impossible to isolate the effect of the advertisement. But it helps to have in place a system of measuring advertising effectiveness. The advertisers become clear about what they have to achieve for the brand, and they realize that they cannot spend their client's money to pursue their own creative urges. They will eventually learn to channelize their creativity to earn revenues for their clients. It is always a tough job to make a creative person accountable, but having a system to measure the effectiveness of his creative output brings some sort of responsibility to the way he pursues his craft. Some of them may resent being evaluated and may opt out, but then they should have realized that advertising represents a frontier where creativity and commerce meet. One without the other is simply untenable.

Check Your Progress

5. Define sponsorships. State its different objectives.
6. What are the different characteristics of a good exhibitor?
7. Why are media decisions important for thed markets?

10.6 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Businesses use various tools to create awareness about products and services they offer. The most frequently used and effective tools are advertising, personal selling, sales promotions, direct marketing and public relations. These instruments of marketing are called promotional mix.
2. Sales promotions are incentives to consumers or trade that are designed to stimulate purchase.
3. Sales promotion provides extra value that encourages purchase. When it is targeted at consumers, the intention is to motivate consumers to buy the product. When it is targeted at trade, the intention is to motivate distributors and retailers to push the product.
4. Promotional offers can be targeted at consumers or at distribution channel members. Usually, companies employ both these methods to garner larger sales gains. The various consumer promotion techniques are money off, bonus pack, premiums, free samples, coupons, competitions and draws. The trade promotion techniques are price discounts, free goods, incentives and allowances.
5. A sponsorship may be defined as a business relationship in which funds, services and resources are provided by an organization to an individual or event or an institution in exchange of certain rights and associations that

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may be used for commercial advantage. Sponsorship allows a business to demonstrate its affiliation to the individual, event, or the organization that it has chosen to associate with. The different objectives of sponsorship are: gaining publicity, fostering favourable brand and company associations, improving community relations and creating promotional expenditure.

6. The characteristics of a good exhibitor are as follows:
   - Exhibits a wider range of products, particularly large items that cannot be demonstrated on sales call
   - Staff is well informed and always in attendance at stand
   - Informative literature is available for visitors
   - Seating arrangement or office is provided on the stand
7. As media costs rise and brands become more sharply targeted, media decisions become important.

10.7 SUMMARY

- Businesses use various tools to create awareness about products and services they offer.
- The main aim of promotional mix is to spread the word or publicize the existence of the product or the services. If customers are not aware of the availability of the product, survival for the business will become difficult as rivals would rule the market.
- Sales promotion provides extra value that encourages purchase.
- Promotions that are specifically linked to larger pack size may persuade consumers to switch from less economical smaller packs.
- Consumer promotions are the offers that are given to end consumers. These may be price based offers, such as money offs, or non-price based offers such as gifts, samples, coupons, and so on.
- Trade promotions are offers or schemes given to channel intermediaries. They can be price based, such as quantity discounts, or non-price based, such as allowances.
- Sponsorship allows a business to demonstrate its affiliation to the individual, event, or the organization that it has chosen to associate with.
- The different objectives of sponsorship are gaining publicity, fostering favourable brand and company associations, improving community relations and creating promotional expenditure.
- Exhibition is another promotional tool. It helps in bringing the buyers, sellers and competitors together in a commercial setting.

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- With the increase in media costs and brands becoming more targeted, media decisions have become more important. Two key media decisions are choice of media class (TV, press, radio, outdoor, internet, and phone) and media vehicle (a particular magazine/programme).
- Creative factors, size of the advertising budget, relative cost per opportunity to see, and competitive activity are some of the determining factors to be taken in account while advertising in a particular medium.
- Advertising research needs to ascertain whether an advertising campaign has been successful or otherwise. Measurement can take place before, during and after campaign execution.

10.8 KEY WORDS

- **Sales Promotions**: It is one level or type of marketing aimed either at the consumer or at the distribution channel (in the form of sales-incentives).
- **Sponsorships:** It is a relationship between the providers of funds, grants, etc. with an association, organization generally for a commercial use.
- **Coupons:** It is a consumer promotion techniques which not only influence the existing sales but also the future sales of a product and they have a much higher redemption value.

10.9 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Why is it important for businesses to select a good promotion mix?
2. What are the reasons for the growth of sales promotion?
3. What are the different types of compensation plans for salespersons?
4. What are the methods of evaluating the performance of salespersons?
5. Define the objectives of exhibitions as a type of promotional tool.
6. List the characteristics of a good exhibitor.

Long-Answer Questions

1. Explain why companies take up sales promotions.
2. Describe the different objectives of exhibitions.
3. Explain in detail the different types of TV advertising formats.
4. Explain the characteristics of an effective advertisement.

10.10 FURTHER READINGS

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UNIT 11 PERSONAL SELLING: AN INTRODUCTION

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Structure

11.0 Introduction
11.1 Objectives
11.2 Personal Selling
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11.2.2 Challenges in Personal Selling
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11.0 INTRODUCTION

The direct interaction between the buyer and the seller is crucial as it determines a very important aspect of the purchase decision. Personal selling, that is, face-to-face contact between customer and salesperson, provides the latter an opportunity to listen to the requirements of the customer and address it. In this unit, you will be learning about the relevance of personal selling and its challenges. The trajectory of selling as a career will also be traced in the unit. The various types of salespersons and their functions will also be discussed in detail.

11.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand personal selling and the challenges involved in it
- Evaluate the nuances of selling as a career
- Describe the classifications of a successful salesperson
- Explain the functions of a salesperson

11.2 PERSONAL SELLING

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Personal selling involves face-to-face contact with a customer. There is direct interaction between the customer and the salesperson. During his interaction with the customer, the salesperson identifies the specific needs and problems of the customer, and tailors his sales presentation in the light of this knowledge.

But the audience with the customer should be considered more important than merely an opportunity to make a sale. The salesperson should consider it as an opportunity to develop personal equations with the buyer and cement his relationship with him. Quite a few buyers buy from a company primarily because they like the salesperson of the company. The salesperson should use this opportunity to get a thorough knowledge of the requirements of the buyer and his prime motivations when he makes a purchase decision. The face-to-face interaction with a customer should also be used to establish the credentials of the company. The salesperson has to convince the buyer by his demeanour and presentations that the salesperson's company is a safe bet. The interaction should reduce the risks that the buyer feels he is taking when he is buying a product.

11.2.1 Personal Selling Skills

The perception of a salesperson is that of a slick, suave, fast talking confident trickster devoted to forcing unwanted products on innocent customers. This is unrealistic in a world of educated and knowledgeable customers in consumer markets and professional buyers in business markets. Success in selling comes from implementing the concept of customer-orientation when face-to-face with consumers, and not denying it at the very point when the seller and buyer come into contact. The sales interview offers an unparalleled opportunity to identify individual customer needs and match behaviour to the specific customer that is encountered.

High pressure selling tactics will not work when customers know precisely what they want, which is increasingly the case in both consumer and business markets. In fact, high pressure selling tactics will put off customers and may lead them to denying access to such salespeople. A salesperson will be successful when he combines reason and passion, i.e., combining the attitude to know customer needs and an internal motivation to make a sale. Success is associated with the following good practices:

(i) Ask questions

A good salesperson lets the customer talk. He asks questions to arrive at the real needs of the customers. A good salesperson listens intently. As he listens, he does not prepare his defence for his own product. He listens actively to unearth the motivations of the customer in making the purchase. Most salespersons make the mistake of combining the two tasks of listening to the customer explaining his

requirement and advocating their own product. The two tasks should be done separately at two stages. The salesperson should first listen to the customer and then advocate his product.

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(ii) Provide product information, make comparisons and offer evidence to support claims

Most salespersons feel proud of selling on pure rhetoric. It is not a good ploy when the customers are educated and informed, and are not hesitant about making comparisons. Salespersons should provide detailed product information and help the customer in making comparisons with competitors' product. Howsoever uncomfortable a salesperson may feel, he should allow and facilitate the customers to make comparisons in his presence so that he could provide clarification and influence his choice subtly. A salesperson should not shy away from meeting a customer in presence of the salesperson of a competitor. It is an irrefutable fact that the customer is going to make comparisons before making a choice. So, it might as well happen sooner and in his presence so that, if the customer develops an opinion about his product which is not true, he will have the opportunity to counter it.

(iii) Acknowledge viewpoint of customers

A customer's needs arises out of his own particular state of being and operation. It is futile to find fault with his needs or wish that they were different just because the salesperson's product does not meet the customer's requirement. It is best to acknowledge the customer's needs as legitimate, and work to find a solution to his needs. Customers get agitated when salespersons deliberately misconstrue their requirements to fit with the benefits provided by the salesperson's product. A customer's perception is based on facts that he possesses about a product and competitors' products. It is futile to fight with this perception. Instead, the salesperson should provide new facts which challenge the facts that the customer has in possession. The salesperson should focus on providing such facts which will help the customer in forming positive perceptions about the salesperson's product.

(iv) Support the customer

The customer should consider the salesperson as someone who will offer genuine advice and whose deeds will not be governed by his need to make a sale. The customer should believe that the salesperson will never sell him a wrong product, i.e., one which does not meet his requirements deliberately. It is important that a salesperson demonstrates his genuine concern for the customer, for instance, by refusing to sell his own product and suggesting one of his competitor's products as a good alternative if it fits the customer's requirements better. One lost sale makes a friend of a customer. Even in times of extreme rationality, most customers prefer to buy from companies whose salespersons they trust. It is an irrefutable

fact of business markets that executives buy from friends but the salesperson has to become a friend first.

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(v) Relieve tension

Customers do not like to take decisions under duress. It is important that the customer is allowed to make his choice without the salesperson staring at him. The customer should not be put in a situation where he feels too embarrassed to decline the salesperson's offer. The customer should be allowed to exit gracefully from the negotiation process if he does not want to buy. If a salesperson senses that the customer is reluctant to place an order but feels embarrassed to say so because of the relationship with the salesperson, the salesperson should allow the customer to convey the decision at some later time by email. Email is a good media to send uncomfortable messages. At no point in the selling process should the customer come to regard his relationship with the salesperson as a constraint in his ability to make a good decision. Customers who start viewing their good relationship with a salesperson as an inability to say no to them will not further their relationship with such salespersons. This will be a huge loss to the salesperson. Good relationship with customers is good leverage in conditions where there is product parity but it should not be used as a plank to coerce a customer to buy a wrong product.

11.2.2 Challenges in Personal Selling

The face-to-face interaction between a seller and a buyer is very flexible but the flexibility comes at a cost. Salespersons run huge bills besides their salaries. In industrial marketing, 70 per cent of the marketing budget is spent on personal selling. Industrial marketers focus on personal selling due to the technical nature of their products and the need to maintain close personal relationship with the buyers. Industrial products are expensive and they affect buyers' operations. Buyers and sellers co-operate during installation, operation and service of industrial products, and the salesperson is the person to contact when the buyer needs help from the seller any time during the life of the product.

A sale on an average takes six visits but good salespersons visit their clients even when they know that the client is not going to buy in the near future. Maintaining relationships with clients between their purchases is as important as the interaction that takes place when the salesperson is trying to sell. When salesperson learns of the impending purchases of the buyer, he is likely to be considered favourably by the buyer if the salesperson maintains a relationship with him.

The nature and scope of personal selling is changing. Buying power is being concentrated in fewer companies and there is distinct movement towards centralized purchasing. It may thus follow that lesser number of salespeople are required. But due to product parity, customers need more convincing, and hence more salespeople are required. Also, due to product parity and customers' new ability to gather information from the Internet, salespeople's role as information providers has dwindled, and their role in courting and maintaining relationships has increased.

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Buyers' needs have become sophisticated and cannot be explicitly expressed. Therefore, salespeople have to delve into their circumstances and motivations to be able to unearth their needs.

Salespersons are equipped with latest IT gadgets and they are expected to be in constant interaction with both their clients and their own sales headquarters. While technology has reduced their latitude to take independent decisions in the field, their knowledge about the inventory levels, availability and production plans, and prices of the products they are selling has enhanced their credibility with buyers.

Therefore, before agreeing to supply an item by a particular date, the salesperson can check the inventory levels or the production plans on his laptop. Salespersons are also expected to increase their efficiency in terms of being able to generate more revenues per salesperson. This is because of availability of the telecommunication gadgets and faster modes of transport.

More and more companies are collecting purchase requests from their departments and divisions and are buying from central locations. Buying power is being concentrated into fewer hands, and sellers need to manage relationships with them on a continuing basis. Sellers have put in place key account sales teams who service the accounts of major buyers and are available whenever a buyer needs them. Since it is fatal to lose these accounts, salespersons have to be sensitive and responsive to the requirement of these buyers. The centralized buying teams of the buyer company are packed with specialists who have their own vocabulary. It is important that the sales team have specialists who can converse meaningfully with the specialists of the buyer team. The specialists of the two teams should also develop mutually beneficial relationships among themselves and update each other in the latest developments in their fields. A big change in attitude is required. The sales team has to eschew its fixation for making a sale. The buyer's team and the seller's team have to collaborate to find a solution to the buyer's problem.

Few salespeople sell products that are clearly superior to the competitors on most criteria. Salespeople need to capitalize on the advantages their products have over similar competitive offerings. Under such conditions of product parity, salespersons who understand the requirements of their buyers will exaggerate the benefits that the buyer requires and win an order. The relationship that the salesperson has developed and maintained with the buyer will hold him in good stead when his product is not superior to that of his competitors.

As buyer needs are becoming more complex, salespeople need to be able to produce a package of products and services to provide a solution. Buyers do not want to buy many subcomponents from several suppliers and then assemble these themselves. They want their suppliers to do this job. They want total solutions for their needs. Sales teams need to spend a lot of time in the premise of the buyers to understand and appreciate their requirements. Sales team should also be conversant with the technologies and systems of the buyer to be able to suggest a solution to his needs.

Industrial buyers are experts in their area of operations and are very clear about what they are looking for in the product. Their choice criteria are clear and precise. Customers in the consumer market are also developing clarity and precision in their choice criteria. Customers are technology savvy, are linked to other customers who might have used the product and are generally more willing to consider alternative solutions to their needs. Salespeople have to develop the ability to sell to more educated buyers who take more care to shop around and make diligent efforts to understand product features, benefits, options, prices, etc. Sales people should be able to communicate with these more knowledgeable customers who will ask difficult questions and who will unabashedly compare the salesperson's product with those of his competitors.

As product technologies mature, most products are satisfying the obvious needs of customers, i.e., a refrigerator is keeping the food cold and an air-conditioner cools the room. But there are still many unexpressed needs which irritate a customer. Salespersons will be able to unearth such needs by observing the customer in his own surrounding and talking to him at a stretch. The salesperson's first task thus becomes to find out the problem that the customer may be encountering and then design a solution to the problem in consultation with the customer. The salesperson has to learn the art of consultative selling. He needs to work with customers to discover their needs and work out an acceptable solution.

It is difficult for a single salesperson to sell to industrial customers. Their problems are complex and are of technical nature and the solution requires inputs from specialists. There is an urgent requirement to manage a team selling approach, particularly with complex sales teams, involving not only sales people but also product and financial experts, marketing and service staff. Such an approach will be required to provide confidence to the customer that the team is competent enough to handle his problem.

It is imperative that the salesperson develops the ability to know the customer's business. Selling will require an in-depth knowledge of customer's business and capability to build relationships. Accurate marketing information will be needed to provide each customer with the best possible service. Besides developing insight about customer's technology, systems and processes, salespeople should learn to empathize with customers' requirements and problems. It is also important that the salesperson understands the capabilities of its own company and knows its resource people well so that he can suggest suitable solutions to the customer's problems.

When there are no substantial differences between the product of the salesperson and those of his competitors, the ability to provide services to the customer will clinch the deal for him. The salesperson may offer to install the equipment or provide maintenance service. The capability to add value through service will become increasingly important. Suppliers will be required to provide such services as business consultants and ongoing product support to create and retain customers.

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11.2.3 Personal Selling Process

Personal selling strategies or process should be derived from the marketing strategy and should be consistent with other elements of marketing mix. The following variables should be considered while formulating sales strategy:

(i) Call rates

If the intensity of competitive rivalry is high in the industry, salespersons should be calling on their customers more frequently. If the rate of technological changes in the industry is high, the customer is more likely to change equipment frequently and may require the services of the sales team more often to evaluate options. Also, when the buyer is expanding his facilities or is venturing into new business, salespersons should be calling on the buyer more often.

(ii) Percentage of calls on existing and potential accounts

A salesperson has to divide his time between existing and potential customers in a way that maximizes sales or profits of the company. Some salespeople fix some formula for themselves so that they do not spend excess time with either type of the customers, i.e., he will spend forty per cent of his time with existing customers and the rest with prospective customers. But this may not be a good strategy all the time. The division of time between the existing and potential accounts should depend upon the type of industry and the state of business in the industry. If the industry has big buyers and the salesperson's company has sufficient number of those big accounts, focus should be on retaining those accounts. But if the salesperson's company has only a few of these accounts, the salesperson should divide his time between serving existing accounts and acquiring new ones. The idea is that the salesperson should be aware of the need to divide his time judiciously between existing and potential customers, depending upon the type of industry and the state of business in the industry. However, the salesperson should be flexible because a formula will become irrelevant when the state of business changes.

(iii) Flexibility in price

Salespeople are prone to announcing discounts at every hurdle in the selling process. It is important to provide flexibility in prices that salesperson can offer to customers because many deals can be clinched by offering small discounts. Many a time discounts have to be given to demonstrate to customers that they are important. But there should be guidelines prescribing the amount of discounts that can be offered to customers under exceptional circumstances. When discounts become pervasive, customers start expecting discounts as routine part of their buying process and the list price loses its sanctity. The company should reduce its list price under such circumstances to restore the sanctity of its list price. The company will be in a better position to know the realized price. Salespeople should be able to sell on the merits of the product and on the strength of the relationship that they have with the customers. Discounts should be provided in exceptional circumstances.

(iv) Percentage of resources targeted at new and existing products

New products will require a push from salespeople and it should be ingrained in salespeople that at the time of launch of a new product, they must travel those extra miles and give those extra hours to make the launch successful. If the launch is very important for the future of the company, salespeople can afford to spend less time in selling the old products for some time. But eventually the customers' response towards the product will decide the amount of attention that the new product will get. If the new product is liked by customers, salespersons will pay more attention to it. If customer response is lukewarm, their attention will shift back to their old products.

(v) Percentage of resources targeted at different types of customers

Some companies are competent enough to serve big accounts, i.e., they can afford to charge low prices and give a lot of service to their customers. These companies dedicate multifunctional sales teams to such accounts. Retaining the existing customers is the major responsibility of the sales force. Some other companies prefer to serve small accounts which pay full price and do not expect much service from their suppliers. These companies expect their salespeople to spend more time in looking for prospective customers than in serving existing customers.

(vi) Improving customer and market feedback from sales force

Some companies compete by launching innovative products. Salespeople of such companies have to be adept at sensing customer response to the new launches of the company. Detailed and early feedback is important for improving the product. They also have to be alert to latent and emerging needs of customers that they can feed to their development team. But even in companies which are only moderately focused on bringing new solutions to customers' needs, collecting feedback and information from customers is important if the new product has to be suitable for the customers. In mature industries, where customers' needs and enabling technologies are not changing perceptibly, sales force can almost exclusively concentrate on selling what their companies make.

(vii) Improving customer relationships

Developing and maintaining relationships with customers is expensive and a company need not incur this expenditure on every customer it does business with. There are customers who will always buy from the supplier who offers the lowest price. Some of them buy too little. There are industries in which relationships with customers is not important at all. A company competing on the basis of technological sophistication of its products will buy from a supplier who has the latest technology. The supplier would be better off putting money in R&D than investing in a relationship with the customer. A company has to deliberate if it needs to develop and maintain customer relationships in its industry, and if it has to, it should identify the accounts

that deserve the investment in developing and maintaining relationships with them.

In general, the importance of key account selling is increasing. Diversion strategy can be used to win new accounts. A company can distract a rival into focusing its resources on defending one account and thereby neglecting another, which can be won.

11.3 SELLING AS A CAREER

Selling is the key *front line* task in the competitive market of business warfare. As such, the career of sales personnel is dependent on their achievements in the field. Typically, an entry level position for a salesperson would pertain to handling a geographical area earmarked or identified in line with the organization's market coverage requirements. The profile of the sales personnel will differ in line with the product sold. Generally, industrial selling and selling of technical products require higher qualifications and experience of a sales personnel. A salesperson's career would normally progress with larger responsibilities being given in terms of the area (geographical) covered and also in terms of sales revenue handled. The typical progress in an Indian tyre industry is shown in Figure 11.1.

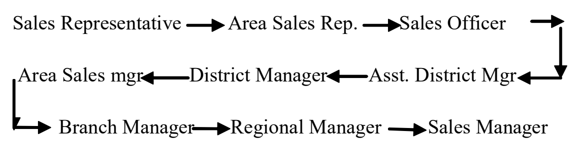


Fig. 11.1 Progress in Indian Tyre Industry

Some organizations also have the concept of unit managers (insurance industry). Four or five people report to the unit manager and the unit manager reports to an area manager, and the chain continues.

Some organizations have the sales force organized across products, markets or territories. The managers are then referred to as product sales managers, market sales managers or territory sales managers. Further, larger companies may have one or more sales managers handling the function of forecasting, budgeting research etc., exclusively, and therefore they would be designated accordingly. Some personnel, even in the front line function of sales, have purely support functions—training, researcher, and customer service.

A majority of sales managers start their careers as sales representatives. Depending on the organization and their capability, some of them may soon move into a management role in as short a time as six months. Others could take a longer time, but typically five to ten years in the field (at different levels) is a prerequisite before being promoted as a sales manager.

Sales managers are similar to other managers in the marketing function. However, as described earlier, the requirement to manage a sales force team which is spread across the country differentiates the task dimension for the sales

manager. First, this necessitates the sales manager to travel for a significant portion of his time and it is not uncommon to come across instances where some sales managers are travelling more than 50 per cent of their time. The second differentiation is the requirement of sales managers to assume the role of coach for their team. Therefore, many sales managers spend nearly 20 per cent of their time in training and coaching activities. The third unique aspect in the sales manager's function is the objective measurement of a majority of their goals and responsibilities. The daily, weekly, monthly and quarterly reports of the sales team makes it possible for their value addition to be precisely measured and judged. This leads to a difference in compensation for sales personnel where their earnings are linked to output. Thus, the commissions and bonus component of the earnings of sales personnel is linked to performance achieved and this is different from the compensation structure of managers belonging to other functions, such as purchases, finance, HR. Thus, a successful career in sales requires orientation, skills and competencies which are distinct from other functions. The fact that even at the level of sales managers, the time spent on administration and other activities is minimum, points to this intrinsic difference. The specific competencies required for a successful sales manager are detailed in the next section.

Competencies of a Sales Manager

To be effective in discharging his responsibilities, a sales manager needs to develop and sharpen different types of competencies and behaviours. However, before proceeding further, let us define what a competency is.

A competency is defined as a behaviour or a set of behaviours that describes excellent performance in a particular work context (e.g. job, role, function). In other words, any underlying characteristic required for performing a task, role or activity successfully can be considered as a competency.

Excellent performers on the job exhibit these characteristics and behaviours much more consistently than average or poor performers.

The competencies required for a successful sales manager can be broadly classified into two groups:

- Knowledge and skills
- Attitude and behaviours

1. While a whole range of *knowledge and skills* are essential, the principle success of a sales manager is driven by the following:
   - **(i) Devising strategies:** The sales manager's task in shaping the *strategy* of the organization and, in turn, the strategy for the sales function has already been explained in detail. This is a key requirement.
   - **(ii) Planning and managing a budget:** *Budgeting* is that core function around which the work schedule for the year is planned; therefore, drawing a proper budget requires the manager to correctly estimate the resources he has and their capability.

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(iii) **Selling and negotiation skills:** This is a key capability without which the success of the sales manager would be in grave doubt. As a majority of sales managers evolve from a salesperson, this skill is imbibed early in the sales manager's career and he needs to keep sharpening this all through his tenure.

(iv) **Assessment of market potential:** Several approaches are available in the *assessment of market potential*. The skill required here is not only knowledge of these approaches but also knowledge of where to apply which approach.

(v) **Customer management skills:** A sales manager needs to possess some basic knowledge of psychology. This will assist him in understanding the customer better and thereby manage him.

(vi) **Market and competition knowledge:** This enables the sales manager to devise the right strategies in the first instance. Additionally, this enables him to gauge the response of the competition to a *tactic* or the action taken in the field by his team.

(vii) **Presentation skills:** The sales manager requires this skill to persuade or convince customers (both internal and external) and make them agree to his proposals.

(viii) **Relationship building skills:** This is the most important skill required by successful sales managers as *building relationships* is the most basic and essential task of a salesperson at all levels.

(ix) **Communication skills:** This again is another basic requirement of a salesperson at any level. As the salesperson moves up in the hierarchy, his proficiency level in this vital area needs to increase.

(x) **Product knowledge**: This becomes very important in the case of technical product or services selling.

(xi) **Understanding of product and market mix:** A sound understanding of the relative hierarchy of products and markets and their ability to deliver value to the organization is vital for a sales manager to be successful.

(xii) **Channel management:** Distribution being a key sales management function, the ability to decipher and finalize the right distribution channel is another very important ability of the sales manager.

(xiii) **Point of sale (POS) management**: This is the most critical key in consumer and FMCG selling. Identifying the right POS is in itself a key skill.

(xiv) **Merchandising:** One of the vital inputs for retail sales, this knowledge is finding increasing importance with the growth of organized retailing.

2. The *behavioural competencies* necessary for a successful sales manager can be classified as:
   (i) Analytical thinking: This is nothing but the ability to establish the relationship between *cause* and *effect* by using an objective and logical approach.
   (ii) Achievement orientation: This can be described as the drive for achieving excellence. This would involve setting goals and standards, and meeting and exceeding them.
   (iii) Adaptability: In a fast changing world, this is a key competency and deals with the ability to change one's approach when circumstances change.
   (iv) Conceptual thinking: When a sales manager is able to make a connection between data and situations and comes up with ideas and concepts, he is said to be competent in *conceptual thinking*.
   (v) Developing others: The ability to enable subordinates to achieve their full potential through their development is a key competency which a successful sales manager must have.
   (vi) Accountability: The ability to communicate performance expectations clearly and to follow up for their delivery is a key requirement for the team leader.
   (vii) Team leadership: The drive and ability to bring together a team and energize them in achieving the common shared goals of the team is another very relevant and vital competency.
   (viii) Self confidence: This requires the sales manager to believe that he can take on challenges and emerge successful.
   (ix) Service orientation: A bent of mind which believes that a happy customer is central to business survival and accordingly takes all actions to ensure a customer his satisfaction.

11.4 CLASSIFICATION OF A SUCCESSFUL SALESPERSON

Order takers are not expected to persuade customers to buy the company's products or increase their quantity of purchase. They are supposed to book customer orders and pass on the information to relevant people in the company. They are expected to be accurate. They are also expected to have information about when the order that has been booked will be delivered to customers. Customers will often enquire the delivery date from them and they should have answers. Orders takers are also being prompted to at least prod the customers to buy certain other products of the company besides the ones that they are already buying or increase their quantities of purchase.

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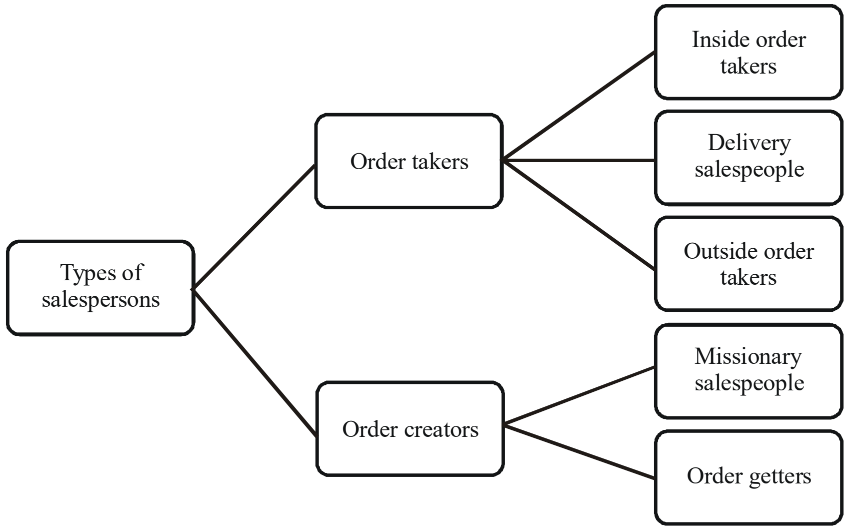


Fig. 11.2 Types of Salespersons

Inside order takers

Retail sales assistants are typical inside order takers. The customer has full freedom to choose products without the presence or influence of a salesperson. The salesperson's task is transactional. He receives payments and passes over the goods to the customers.

Delivery salespeople

Delivery salespeople are primarily concerned with delivering the product. There is little attempt to persuade customers to increase the order. Changes in order size are customer driven. Though delivery salespeople do not try to influence demand, winning and losing an order is heavily dependent on reliability of delivery.

Outside order takers

Salespeople visit the customer, but they primarily respond to customers' requests rather than actively seek to persuade them. They are being replaced by the more cost efficient telemarketing teams who call customers and book their orders.

Order creators

The prime objective of order getters is to convince customers to buy the company's products. The salesperson needs to understand customer's requirements and convince him that his company's products serve his requirements best. Some salespersons get too excited about persuading the customers to buy the company's products. Customers feel embarrassed and angry when a salesperson becomes very insistent though the customer has made it clear that he does not want the product. A salesperson should avoid such situations and should gracefully back off when the customer does not seem interested in the product. If salespeople do not take this precaution, the tribe of salespeople would be collectively shunned by customers.

Missionary salespeople

In some industries, notably pharmaceuticals and building industry, the sales task is not to close the sale but to persuade the customer to specify the seller's products. Medical representatives calling on doctors cannot make a direct sale since the doctor does not buy drugs but prescribes them for patients. Architects also act as specifiers rather than buyers. In these situations, the selling task is to educate and build goodwill for the company.

Order getters

An order getter persuades a customer to make a purchase. He is a frontline salesperson, and is in a typical selling job. He is supported by technical support staff and merchandisers.

- **New business salespeople:** The selling tasks are to win new businesses by identifying and selling to prospects. These salespersons should maintain good relations with current customers who can provide leads. They should also be prepared to make a lot of cold calls and visits.
- **Organizational salespeople:** They maintain close long-term relationships with organizational customers. These salespersons should be very sensitive to customers' problems on a day-to-day basis. They have to act as mediators between the customer and the functional departments of their own company. The selling job may involve team selling where salespeople are supported by product and financial specialists.
- **Consumer salespeople:** They sell products and services such as cars and insurance to individual customers. These salespeople have to be sensitive to customers' time and they should not be insistent when customers have declined to buy. Sensing that a customer does not want the product is as important as sensing that he may want the company's product. A consumer salesperson should be always wary of putting off the customers by being too persistent. Exemplary behaviour is imperative for consumer salespersons.
- **Technical support salespeople:** Where a product is highly technical and the negotiations are complex, a salesperson may be supported by product and financial specialists who can provide the detailed technical and financial information required by customers. This may be ongoing as part of a key account team or on a temporary basis with the specialist being called into the selling situation whenever required.
- **Merchandisers:** Merchandisers advise on product display in stores, implement sales promotions, check stock levels and maintain contact with store managers. They provide support to the sales function in retail and wholesale selling. Salespeople serving individual outlets are supported by merchandisers.

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Check Your Progress

1. Define personal selling.
2. What are the personal selling skills expected of a salesman?

11.5 FUNCTIONS OF SALESMAN

The primary responsibility of a salesperson is to increase sales. For order getters, this will involve identification of customers, presentation, product demonstration, handling objections and closing the sale. In order to generate sales, six enabling functions should be carried out:

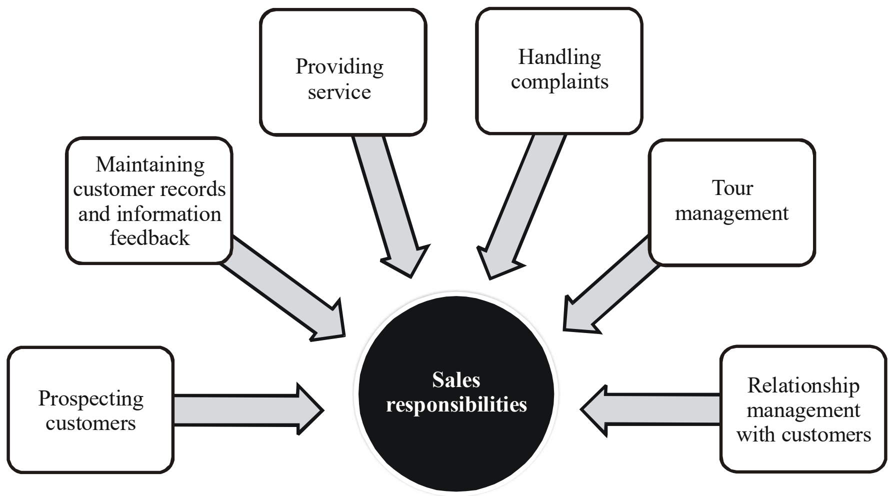


Fig. 11.3 Sales Responsibilities

Prospecting

Prospecting is searching for and calling upon potential customers. Most salespeople rely on established customers rather than actively seeking new business. They work in their comfort zone calling upon old contacts rather than searching out and selling to new customers. A company should insist that a certain percentage of the revenues should come from new customers. Their incentive plan can be structured in a way that it becomes more lucrative to acquire new customers. However, there is need for balance. When there is excessive emphasis on acquiring new customers, the current customers' running requirements may be ignored leaving them dissatisfied.

Prospects can be identified from several sources.

Existing customers

Satisfied customers should be asked if they know of anyone who may be interested in the products being sold. Salespeople should also ask if the customer's name

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can be used as an example of a satisfied customer. Salespeople can offer some incentives to customers for providing names of prospective customers. But the best chance of obtaining such a list from customers is when they are satisfied with the services and behaviour of the salesperson.

Trade directories

These provide means of prospecting. These directories give names, addresses, telephone numbers, size of firms and products they make. But a salesperson cannot rely on this source exclusively. The data may be too large and unqualified, and the salesperson will have to make a lot of cold calls and visits.

Enquiries

Enquiries from prospective customers can be stimulated by advertising, direct mail or exhibitions. Such enquiries should be dealt with promptly and checked to establish their seriousness and worth. This process of checking leads to establish their potential is called qualifying.

The press

Advertisements of a prospective customer may reveal their expansion plans that may suggest potential business for the company. Articles in scientific, professional and business publications may reveal new products being developed by companies that may require the salesperson's company products.

Cold canvassing

This involves calling on prospects who may or may not need the product. Cold canvassing may become frustrating at times but a salesperson must always remember that most cold calls always provide some information about the prospective customers which will be helpful in tracking them for future business. But it is important that a salesperson maintain a record of the interaction he had with the customer, no matter how uninterested the customer sounded at the time of the interaction. When such records are revisited by the salesperson at frequent intervals, he may find that some customers had given him hints about when they would need the salesperson's product and other indications which may be acted upon now.

Maintaining customer records and information feedback

Customer record keeping is an important activity for salespeople who focus on getting repeat orders from their customers. For industrial salespeople, information should be available on decision making limit, i.e., who are the important people to see, when they have been seen and what are their choice criteria. Salespeople should be encouraged to maintain data of finer nuances of their customers' requirements and behaviour. Business would normally be won by companies which incorporate these nuances in their offerings. These records become very valuable

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when the key contact employee of a major customer leaves the company. These records will the help the company in reconstructing its relationship with the customer.

Sales people should be encouraged to send customer and market information to the head office. Test marketing activity by competitors, news of imminent product launches by competitors, rumours of policy changes of trade and industrial customers and competitors, feedback on own and competitors' product performance, performance of delivery and after sales service may be useful to management and should be provided to them.

Providing service

Sales people meet many customers and they become familiar with solutions to common problems. They have a good idea of the equipment, processes and materials that other companies may be using successfully. Salespeople can help their clients by suggesting these equipment, processes and materials to them.

Sales team may provide after sales service to customers. For some equipment, after sale services like installation, commissioning, warranties, maintenance, etc., are very important factors in determining the satisfaction of customers. Sales engineers may also be required to give advice on the operation of a newly acquired machine or provide assistance in the event of a breakdown. They may be able to solve the problem themselves or call technical specialists to help them.

Sales team should understand that the customer may be using an equipment, but he is not an expert in the technology of the equipment. So when a customer has a problem with the equipment, he will expect the sales team to help solve the problem. The customer is obviously happy when the supplier supplies him a great product, but a relationship between the buyer and the salesperson can develop only when the sales team demonstrates its usefulness on small matters at frequent intervals. Sales teams should always welcome a call for help from a customer as the team gets another opportunity to demonstrate its usefulness to the customer and cement its relationship with him.

Handling complaints

Dissatisfied customers tell six other people on an average about their cause of complaint. Dealing with complaints quickly and efficiently is a key aspect of selling. The ability of a sales team to empathize with customers and react sympathetically creates goodwill. When the sales team promptly solves customer problems, the complainants will spread the news of how well they have been treated.

When dealing with customers' complaints, it is important to understand the anxiety level of customers and the difficulty that the customer may be facing because of the problem. Though the two aspects are related in most cases, i.e., the anxiety level of customers is proportional to the difficulty that the customer is facing, some customers feel high levels of anxiety, even when the difficulty that they face is not

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much. Sales team may give such complaints low priority but it is fatal for a sales team to view a customer complaint objectively and from its own point of view. A complaint is only as serious as the customer believes it to be. If a customer is very worried about a small fault in his equipment, the company will lose the customer if its sales team were to label him as 'unduly worried', and ignore his problem. More important than finding a solution to the customer problem, which is obviously important, is to reduce the anxiety of the customer, which in most cases can be done by reaching the customer site as soon as possible.

Tour management

Journey routing may be delegated to sales people. Many sales people believe that the most efficient routing plan involves driving out to the farthest customer and zig zagging back to home base. But adopting a round trip approach usually results in lower miles travelled. However, efficiency alone should not rule the journey routing. If an important customer has some urgent requirement, a salesperson should make adjustments to reach him even if the distance travelled increases.

Call frequency is also to be delegated to salespeople. It is sensible to grade customers according to their potential of contributing to the revenues of the organization. Sales people may overcall on established, friendly customers even though they do not have much growth potential. Customers with greater potential to buy the company's products should be visited more frequently.

Relationship management

Many selling situations are not one-off, situation specific encounters, but long term in nature. This is particularly true in organizational markets, where the two parties work together to create, develop and maintain a network within which both parties do business. The management of relationships with key customers is a major responsibility of the salesperson. Although the number of salespeople is falling, the number of key account managers is growing, which is testimony to the importance that companies are attaching to managing relationships with their important clients.

Buyers are also reducing the number of suppliers that they are buying from. In fact, most companies are keen to source one component from only one supplier and most companies are willing to source more than one component from the same supplier. They have more stake in each other's business. Buyers and suppliers are doing more for each other than merely buying and selling products. Suppliers are aiding their buyers in designing components and are taking overall responsibility for the components they are supplying. Buyers are helping their suppliers to improve their processes and cost structures.

Sales team's role will change as the two companies decide to interact more intensively and proactively. Sometimes the functional departments of the two companies may be interacting on a daily basis even without the knowledge of the salesperson. Salesperson may feel slighted, because he was the sole interlocutor

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between the two companies earlier. Under these situations, the salesperson has to merely facilitate communications between the employees of the two companies, and sort out any differences that may occasionally arise.

The objective of relationship management is to build goodwill that is reciprocated by placing orders. This can be achieved by providing exceptional customer service through:

- **Technical support:** The suppliers should help the buyer in installation, commissioning and maintenance of equipment they sell.
- **Expertise:** The supplier and buyer have expertise in different technologies and they should be able to use their technologies for mutual benefits.
- **Resource support:** The buyer and the seller should put their resources at each other's disposal. The idea is that the buyer and seller should understand their mutual dependence and realize that they have to collaborate to become a competitive unit.
- **Improving service levels:** Since suppliers are supplying sub-assemblies instead of components, customers require greater services from their suppliers. Suppliers have to upgrade their level of services to be able to add value to the operations of the customer.
- **Lowering perceived risk:** Suppliers have to assume some of the risk of the buyer. He may provide guarantee of performance and an opportunity to return the equipment if the customer does not find it suitable.

Salespeople should develop trust through high frequency of contact, ensuring that promises are kept, and reacting quickly and effectively to problems.

Check Your Progress

3. What do you mean by prospecting?
4. What are the factors determining the call rates of a salesperson?
5. What is the objective of relationship management?

11.6 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Personal selling involves face-to-face contact with a customer. There is direct interaction between the customer and the salesperson. During his interaction with the customer, the salesperson identifies the specific needs and problems of the customer, and tailors his sales presentation in the light of this knowledge.

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2. A salesman is expected to have the following personal skills:
   (a) Should ask questions
   (b) Provide product information, make comparisons and offer evidence to support claims
   (c) Acknowledge viewpoint of customers
   (d) Support the customer in making decision
   (e) Relieve tension
3. Prospecting is searching for and calling upon potential customers. Most salespeople rely on established customers rather than actively seeking new business. A company should insist that a certain percentage of the revenues should come from new customers.
4. If the intensity of competitive rivalry is high in the industry, salespersons should be calling on their customers more frequently. If the rate of technological changes in the industry is high, the customer is more likely to change equipment frequently and may require the services of the sales team more often to evaluate options. Also, when the buyer is expanding his facilities or is venturing into new business, salespersons should be calling on the buyer more often.
5. The objective of relationship management is to build goodwill that is reciprocated by placing orders.

11.7 SUMMARY

- Personal selling entails face-to-face contact between the customer and the salesperson. During this interaction, the salesperson recognizes the needs of the customers and moulds his sales presentation accordingly.
- A good salesperson allows the customer to talk about his requirements. He further asks questions so that the needs of the customer can be met. A good salesperson should listen to the customer.
- Salesperson should give a detailed account of the product to the customer in order to help him make comparisons with the competitor's product.
- Customers do not like to take decisions under duress. Therefore, the salesperson should not put the customer in a situation where he feels too embarrassed to decline the salesperson's offer.
- The nature and scope of personal selling is changing. This is why there are certain disadvantages to personal selling. The face-to-face interaction between seller and buyer is flexible, but only to a certain point.
- Personal selling strategies or process should be derived from the marketing strategy and should be consistent with other elements of marketing mix.

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- Some of the variables considered while formulating sales strategy are call rates, percentage of calls on existing and potential accounts, flexibility in price, percentage of resources targeted at new and existing products, percentage of resources targeted at different types of customers, improving customer and market feedback from sales force and improving customer relationships.
- The competencies required for a successful sales manager can be broadly classified into two groups:
  - o Knowledge and skills
  - o Attitude and behaviours
- The different types of salespersons include inside order takers, delivery salespeople, outside order takers, order creators, missionary salespeople, and order getters.
- The responsibility of a salesperson includes prospecting customers, maintaining customer records and information feedback, providing service, handling complaints, tour management and relationship management with customers.

11.8 KEY WORDS

- **Competency:** It is behaviour or a set of behaviours that describes excellent performance in a particular work context (e.g. job, role, function).
- **Personal Selling:** It is categorised as a promotional method in which a salesperson builds relationships with a customer that results in both parties obtaining value.
- **Merchandisers:** Merchandisers provide support to the sales function in retail and wholesale selling by advising on product display in stores, effectuating sales promotion, checking stock levels and maintaining contact with store managers.
- **Trade directories:** Trade directories offer means of searching for new customers. They include the names, addresses, telephone numbers, size of firms and the products they make.

11.9 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. List the variables which are considered while formulating sales strategy.
2. What is the task of an inside order taker?

3. What do you mean by cold canvassing?
4. What are the ways in which a salesperson can deal with customer's complaints?

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Long-Answer Questions

1. Explain the functions of a salesperson.
2. Discuss the challenges in personal selling.
3. Explain the competencies required for a successful sales manager.
4. Describe the various types of salespersons

11.10 FURTHER READINGS

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BLOCK-IV
TRAINING AND COMPENSATION

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UNIT 12 TRAINING AND COMPENSATION

Structure

12.0 Introduction
12.1 Objectives
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12.0 INTRODUCTION

Training, an important part of personnel management, improves the performance of an organization by achieving a skilled work force. Just as regular training ensures growth and prosperity in an organization, compensation ensures that the work-employee relation remains balanced. Providing monetary and non-monetary benefits to the employees ensures that they remain motivated and the organizational effectiveness remains. In this unit, you will learn about the qualitative and quantitative measures of performance of salespersons. You will also learn about the role of public relations in establishing goodwill between the company and the public.

12.1 OBJECTIVES

After going through this unit, you will be able to:

- Discuss the importance of training and compensation
- Understand the various means of evaluating the performance of a sales force
- Explain the importance of advertisement and publicity

12.2 TRAINING AND COMPENSATION: AN OVERVIEW

Training constitutes an important part of personnel management and it is the personnel department of an organization which supervises training. Before we proceed to understand the importance and other related aspects of training, it is important to understand the meaning of the term 'training.'

The dictionary defines the term 'training' as, 'the process of learning the skills that one needs for a particular job or activity.'

According to Raymond A Noe, 'Training refers to a planned effort by a company to facilitate employee's learning of job related competencies.'

According to P. Bramley, training is 'a process which is planned to facilitate learning so that people can become effective in carrying out aspects of their work'.

The Manpower Services Commission (UK) defined training as 'A planned process to modify attitude, knowledge or skill, behaviour through learning experience to achieve effective performance in an activity or range of activities. Its purpose, in the situation, is to develop the abilities of the individual and to satisfy the current and future needs of organization.'

The European Centre for the Development of Vocational Training defines training as the 'Activity or programme of activities designed to teach the skills and knowledge required for particular kind of work.'

From the above definitions, we can delineate certain elements that constitute the concept of training and these elements are:

- Training is a process.
- Training is a planned and structured activity.
- Training is learning of job specific knowledge and skills.
- Training caters to the needs of the organization.

If we combine the above elements, the meaning of the term training would be, 'a planned and systematic process of imparting knowledge, skills and attitudes, to achieve effective performance in an activity or range of activities.'

For better understanding of the concept of training, we have distinguished it from learning, education and development in the following sections.

Need and Objectives of Training

Prosperity and growth are the two objectives which every organization wants to achieve. To achieve these objectives every organization relies upon a competent and skilled workforce. Training is the only means for the creation of a skilled and competent workforce. Every organization, public sector or private sector, invests considerably in training its workforce in order to achieve its growth objective. With rapidly changing technology and with increasing consumer expectations,

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organizations need to evolve and change accordingly. Every change implies new products, new procedures and processes and this in turn means a continuous updating of workers' skill sets. Therefore, organizational growth requires a continuous updating of workers' skills through regular training. It is training which improves the competency of an organization. It ensures that every worker is able to perform up to the expected standards, and this in turn increases the possibilities of the organization achieving its growth objectives. It is training which creates competent workers capable of performing, which results in a competent organization. In the following sections we shall learn about the advantages of training, which accrue to both the organization and the individual.

Advantages of Training to an Organization

- Training improves the ability of the organization to face the challenges created by the changing technology.
- Training increases the competency of the organization to face competition from national and international competitors.
- Training enhances the chances of organizational synergy.
- In organizations where multi-skilling strategies are followed, training ensures work force flexibility.
- Organizations focus on training to produce a skilled work force. Most organizations specify clearly the kind of skill they require in their workforce to meet their job standards. In cases where the skill levels are lacking, the organization ensures that adequate training is provided. For instance, when the banking industry became computerized worldwide, the Indian public sector banks also computerized their operations, not by hiring new workers but by training the existing staff in IT skills. Therefore, investing in training ensures the presence of a competent workforce working for the organization.
- Providing regular high quality training is perceived by the worker as a quality of a good organization. Regular training programmes by the organization keeps the morale of the workforce high and at the same time it generates the feeling of 'Company Cares' among the workforce.

Advantages of Training to an Individual

- Training enhances an individual's skill levels.
- Training provides an opportunity to develop one's latent potential.
- Proper training increases the confidence of the worker to perform the assigned task.
- Selection for a training programme is often perceived by the worker as a sign of his importance for the organization.
- Learning new skills during a training stint often enhances the status of the worker in the work place.

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- Training in new skills may often open doors to more lucrative opportunities.
- Training improves internal and external job mobility.
- Training improves promotion prospects for the worker.
- Training and learning new skills raises the market value of the worker.

It is clear from the above discussion that without training even a well-designed working process will fail to deliver the expected results.

12.2.1 Compensation: Concept, Components and Factors

Compensation is the remuneration received by an employee in return for his/her contribution to the organization. It is an organized practice that involves balancing the work-employee relation by providing monetary and non-monetary benefits to the employees. Compensation is an integral part of human resource management which helps in motivating the employees and improving organizational effectiveness.

Sophisticated compensation management systems can set up accounts payable transactions from employee deduction or produce garnishment cheques. Here the payroll module sends accounting information to the general ledger. It helps in producing pay checks on demand, running trial reports and making last-minute changes without hassles. Flexible features include simplified pay processing, comprehensive reporting, check printing, Direct Deposit, Tax Management, Earning, etc.

The compensation and benefits is the HR change process, which is heavily affected by recession. The bonuses are not paid and the base salaries are under a huge pressure. The compensation and benefits specialists are under the pressure as they have to identify the areas in the organization to realize the redundancies. Recession is a good opportunity for Human Resources to introduce changes to the organization. But the reaction of HR has to be quick as the internal opposition has no chance to form their forces.

Components of Compensation System

Compensation systems are designed keeping in minds the strategic goals and business objectives. Compensation system is designed on the basis of certain factors after analysing the job work and responsibilities. Components of a compensation system are shown in Figure 12.1.

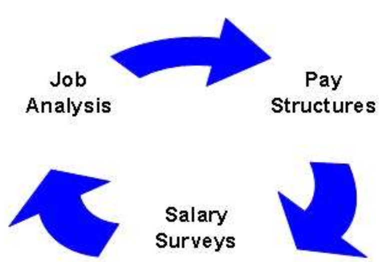


Fig. 12.1 Components of a Compensation System

Types of Compensation

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Compensation provided to employees can be direct in the form of monetary benefits and/or indirect in the form of non-monetary benefits known as perks, time off, etc. Compensation does not include only salary but it is the sum total of all rewards and allowances provided to the employees in return for their services. If the compensation offered is effectively managed, it contributes to high organizational productivity.

- Direct compensation
- Indirect compensation

Compensation evaluation can be done in the firms by various methods. Some of them are as follows:

1. Critical incident method

Critical incidents are particular type of employee behaviours that centre around two different zones: particularly exceptional and mainly disputed behaviours. The critical incidents method of performance appraisal depends on managers' spending time during the year scrutinizing and collecting data pertaining to the behaviour of their employees, with specific focus on critical incidents.

At the time of yearly appraisal, the managers come up with their inferences on these crucial occurrences and classify them as either constructive/acceptable behaviours or unenthusiastic/unacceptable behaviour. The evaluation of an employee is then immensely influenced or even established by the data that stands out whether it is satisfactory or unsatisfactory.

2. Weighted checklist

Here the rater has a set of attributes attached to the outcome of the job. He will rate those attributes. Now he will judge the employee on these rated attributes and then do the PA routine.

3. Paired comparison analysis

Here again the weighted rating method for performance appraisal is used. The employees are paired and compared with each other for the performance in this system.

4. Management by Objectives (MBO)

MBO is a process in which managers / employees set targets for the employee. They are then marked for their performance and on the parameter of the level of achievement of the set objective. They are rewarded accordingly.

5. 360 degree performance appraisal

360 Degree Feedback is a system or process in which employees receive confidential, anonymous feedback from the people who work around them.

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6. Behavioural Observation Scales

Behavioural Observation Scales is observing and noting the employee's behaviour and way of working when he is on the job. This is a way of control where the employee will be constantly monitored while he is working on the objective for him.

Succession Planning

Succession planning is the simplest way of filling the vacancies and preparing staff for future requirements of the organization. Succession planning is assessing the best performing employees for key position to fill immediately or discuss their career goals and integrate them with the company goals to prepare them for future promotions. The overall objective is to ensure the availability of competent talent within the organization for future needs or for present demands.

Factors affecting compensation and benefits decision

A well designed compensation and benefits plan helps to attract, motivate and retain talent in organizations. A well designed compensation and benefits plan will benefit an organization in the following ways.

- **Job satisfaction:** Employees would be happy and love to work for an organization if they get fair rewards in exchange of their services.
- **Motivation:** We all have different kinds of needs. Some work for money and they like to work in organizations which give them higher pay. Some employees might value achievement more than money because of which they would associate themselves with firms which offer greater chances of promotion, learning and development.
- **Low Absenteeism:** Good working environment motivates employees to attend office regularly.
- **Low Turnover:** Fair and good rewards reduces employee turnover rate.

Advantage to the Employees

- Peace of Mind
- Increases self-confidence

Compensation and Reward Policies

Reward is the compensation or benefits or extra pay, which an employee gets from an organization for his or her work. The same can also be crucial when the employee is being transferred to another post or country. Rewards are very popular in the MNCs today. Reward does not only include the money, but it also includes good office, interpersonal relationship in the organization, involvement in taking key decisions in an organization, bonus share, growth opportunity and many other types of compensations.

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The objective of the total reward strategy is to know the critical requirement of an organization's reward and compensation reward programmes, so they can effectively manage the human resource of the organization. The best strategy provides guidelines of how different types of compensation or reward programmes should be planned and managed. This type of compensation programmes include the pay structure (salary of employee), variable cash compensation plan and long and short term equity plan, benefits and services to employee, recognition and other program, and many actions that motivate the employee of the organization. A good reward strategy should show how an organization will invest various resources on reward strategy and how it will take the competitive advantage.

What happens if in the organization, an employee does not get appreciated for his or her effort? How does it affect the business performance and business? Reward is something that motivates the employee to work better, with constant improvement in his or her performance. So in the business, it is good practice to praise the work of each and every employee and appreciate them. At the same time, employees are interested in various other compensation packages as they are not solely interested in monetary compensation.

Reward system is directly linked with employee performance. Reward plays the role of motivation. When an employee is rewarded by the organization, he gets more motivated and tries to work even better. Through this, the organization gets the benefits of better output from employees of the organization.

The evaluation of the reward system is very important because the organization wants returns from the employee after making such huge investments on reward and compensation strategy. Did the behaviour of the employee change? Did the performance of employee change? Did the output in the organization increase? By evaluating the reward strategy, organizations can take major decisions such as change in the reward strategy and the ways to motivate employees by reward and compensation packages.

History of Reward Management

In early days of the 20th century, when mass production took place in the corporate world, Henry Ford introduced the moving assembly line in 1913 *(Beniger, 1986pp. 315).* Now many employees are controlled by machinery. In an organization, employees can be controlled through the production line and by the rewards introduced. As the end of the 20th century, many business people like Taylor had started their study on make more rationalized control of production.

Taylor believed that employees should be motivated by the management. So, it is very important for the management to see that employee who works in the organization must get the chance to maximize their earnings *(Marching ton and Wilkinson, 2005, pp. 322).* From 1921 to 1971 there were many reward solutions that fitted with the development of economy and various social and business challenges of the time. During this period, three types of reward solutions gained prominence: 1) Gain-sharing 2) merit pay and 3) job evaluation. Not only must

this but the information on reward management was also located in the context of economic and social change *(White and Druker, 2004, pp. 4).*

Various theories of motivation can be explained as reward management. One such example is Herzberg's two factor theory. Herzberg's theory includes hygiene factors and motivator factors. Hygiene factors are those factors which do not improve the motivation of employees but they prevent employee dissatisfaction. These include various factors like: salary, job satisfaction, interpersonal relation and working condition (*Mullins, 2005).* Motivator factors also increase the motivation of an employee and include the responsibility, types of work, employee personal growth, recognition and advancement (*Mullins 2005).*

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In recent time, the Total Reward Management has become more important. According to the CIPD (2007b), the term has been taken to know the reward strategy which brings extra components like Learning and development and working environment in the benefits package.

Psychological Contract and Reward Management

The CIPD explains that there is a psychological contract linked with two parties. i.e., the employee and the employer, who have their mutual obligations for each other. Schein (*Armstrong and Murlis, 1998)* explains that there is an expectation which is operating at all the times between the members of an organization. Reward management concerns with the Pay, performance and development of an employee and employee skills. The nature of the psychological contract has changed. Now employees demand the employability from the employers and there is a great notion of professional development and career management of employee. The changes in the psychological contract have effects on the reward management which includes the pay to employee as per their performance, reward to employee as per their skills, communication to employee for the new change in the reward system and how the new reward system will benefit the employee, the involvement of the employee in various organizational development process and in training programme and in making the reward policy and practice (*Armstrong and Murlis, 1998, pp. 26-7).*

A Successful Reward Strategy

The reward strategy defined by Hurwich (1986) (Cited in Brown, 2001, pp. 3) is a business issue in the decision on compensation. As per Brown (2001), reward strategy has two aspects: one is linked between the pay and reward strategy and the second is need of change in the organization, so business can change the strategy as the business environment changes and can meet the success of the reward strategy.

Lawler was one of the experts who promoted the reward strategy and explained it as an integrated reward approach, linked to strategy of the business, pay system and behaviour of staff. Figure 12.2 will give more information (Brown, 2001, pp. 2).

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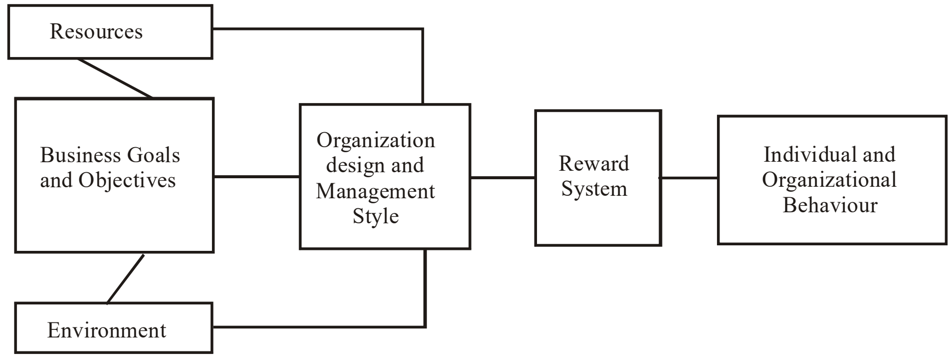


Fig. 12.2 Integrated Reward Approach

Changing Reward System

In the past 20 years, the organization landscapes in which the business operates have faced major changes like: increase in the competition, cost reduction, improvement in the quality and attentiveness to add value (Chen et al 2006). These kinds of factors, which are implemented by the organization, have major impact on the company's reward system and strategy. Now employees are not rewarded by money for a longer period of time. With the need of motivated staff, Mullins (2005) says that there should be motivation at the work place. CIPD also says that there are also such factors which are intangible and can motivate the employees in an organization.

Challenges in Reward Management

Armstrong and Brown (2005) identify the major challenges in reward management; while the first challenge is to implement the reward strategy and bring change in the organization, second is role of top level management (line managers) and third challenge is to make the reward strategy as per the need of the business strategy. Bevan (2003) suggested three areas in which organization must ensure that they are in the right direction and using the right reward strategy. First is that an organization should keep the focus on the strategy. Second is that pay system should not be too complicated, and the third is the involvement of line managers in formulating the reward strategy so that others have faith in the strategy. This would mean that reward will be given to the employee based on his or her performance.

Current Trend in Reward Management

Now, most of the companies are adopting the reward management practice in their organization. Their reward system includes both financial and non-financial reward. As per the Chen et al. (2006), many companies see the reward management as a one of the tools which helps the company to achieve its goal.

Role of the manager in a reward system

It is crucial for the employers and mangers to give attention to the employees and also develop a reward system for the best employees. In this way, one could

encourage the company's good performers and bring them to greater heights. Here also, one has to study and understand the parameter of Positive recognition in employees which can bring in positive aptitude and a productive organization. The employees' outstanding performance does bring value to the organization by enhancing such behaviour. Thus, awards, which include monetary and non-monetary ones, have to be given to employees for their achievements and accomplishments.

Monetary rewards

When one talks of monetary rewards, it could be paid as a negotiable instrument like cash, cheque, or a money order which can be directly deposited. Thus, this would be an item which could be converted to cash like the savings bonds and even gift cards/certificates.

Non-monetary rewards

One has to study and understand the parameter of other rewards like that of meals, trips and not to forget the reputation booster trophies, company's desk items, or small cups and mugs, or any type of personal items along with clothing like caps, shirts or tools, electronics, radios and not to forget the sports equipment.

Management

Here also one has to study and understand the parameter of fair and consistent application when the rewards which include the recognition programmes that have to be developed. Thus, this could include the pre-arranged scheduled contributions and the ways to enhance the accomplishments in an individual or a team. Here, the essence of reward and recognition will be taken by the employee as an acknowledgement and appreciation, be it for the factors like attendance or maintenance of safety, good customer service, better productivity, good public service, or even outstanding achievements and similar parameters.

Thus, employee recognition can be given to the employee by rewards and recognition when a said behaviour or a needed value is displayed in the organization; this task will contribute in the goals of a firm and the work unit for which it will acknowledge a person or a team's accomplishments.

12.3 EVALUATION OF PERFORMANCE OF SALES FORCE

A sales manager needs to know how his salespeople are performing in terms of achieving their sales targets and carrying out other tasks like providing technical backup to customers. He identifies the weak areas of performance of each salesperson and then provides incentives to improve performance in those areas—if a salesperson is weak in opening new accounts, he is provided incentive for each account that he opens. He tries to identify strengths and weaknesses of each salesperson. He assigns tasks to individual salespeople in ways that allow them to

capitalize on their strengths. He arranges training programmes to take care of their weaknesses.

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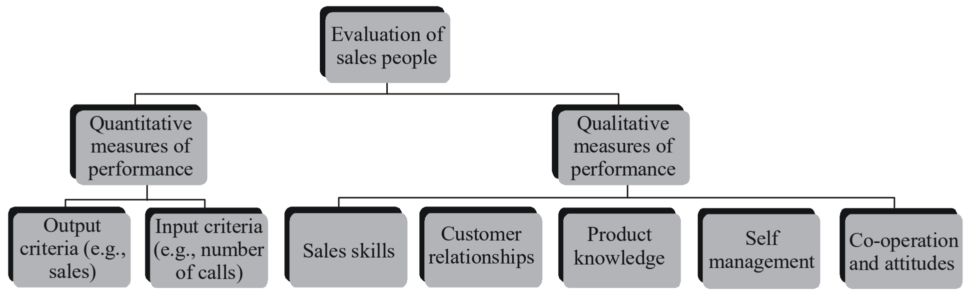


Fig. 12.3 Evaluation of Sales People

Quantitative measures of performance

- **Based on output:** Sales, profits, sales per customer and number of new customers signed up.
- **Based on input:** Number of calls made, calls per customer, calls on new customers and number of prospective customers visited.
- Most companies fix targets for quantitative measures and then compare the performance of their salespeople against the targets. The process helps the companies to identify the weaknesses and strengths of each salesperson. Sales managers should probe deep to know as to why a salesperson is not achieving his targets and then take appropriate corrective measures. For example, a salesperson may not be signing up enough number of new accounts because he is not making enough number of calls on prospective customers and making too many of them on existing customers.

Qualitative measures of performance

- **Sales skills:** Making presentation and asking questions to unearth customers' requirements and active listening.
- **Customer relationship management:** Do customers trust company's salespeople?
- **Product knowledge:** Do salespeople have detailed knowledge of company's products and those of its competitors?
- **Managing self:** Are salespeople able to organize their routes and plan their sales calls?
- **Attitudes:** Are salespeople keen to take initiatives or are they content to follow orders?

A company should create linkages between quantitative and qualitative measures. For example, if a salesperson is generating low sales per customer, his sales manager should carry qualitative assessment of his selling skills and product knowledge.

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A sales manager should be able to assess if an individual salesperson is likely to successfully close a deal that he has been pursuing. Such an assessment will enable him to pitch in if he concludes that the salesperson is unlikely to get the customer's order. One way to know whether a salesperson will win an order or not is to directly ask the salesperson whether he believes that he will be able to close the sale successfully. But, most salespeople do not let the sales manager know that they are faltering when they are asked directly about their chances to win an order. Therefore, a salesperson should ask a series of questions to delve deep into how the deal is progressing and make a judgment from answers that he receives. A statement like 'the customer has asked for product demonstration' reveals that sales process is proceeding in the right direction, but a statement like 'the customer likes the product' does not reveal if the sales process is moving at all. A sales manager should seek specific and detailed answers—a salesperson is likely to win an order if his responses are assured and credible, and he is likely to lose an order if his responses are thin and unconvincing. The sales manager will join the salesperson in soliciting the customer if he is convinced that the salesperson cannot do it alone. The sales manager will be more proactive and diligent in doing so if the customer is likely to bring large amount of revenues, and also if the salesperson is otherwise valuable to the organization.

The faltering salesperson should be counselled, and the sales manager should take him under his wings for some time till he regroups himself to be on the beat again.

Evaluation and control of total sales operations

Companies need to be in control of their sales operation. Sometimes they may have to take drastic actions to ensure that the sales organization is achieving its targets. One company which suspected that its sales people had become complacent moved every salesperson to a different territory, and sales increased.

12.4 ADVERTISEMENT AND PUBLICITY

Marketers primarily focus on customers and distributors but the needs and interests of other stakeholders such as employees, shareholders, local community, media, government and pressure groups are also important. Marketers should always be mindful of their needs and interests as they go about making their strategic and day-to-day decisions.

Public relations is the management of relationships and communication to establish goodwill and mutual understanding between an organization and its public. Public relations is more wide ranging than marketing which primarily focuses on markets, distribution channels and customers. By communicating to other groups, public relations create an environment in which it is easier to conduct marketing. Public relation activities include publicity, corporate advertising, seminars, publications, lobbying and charitable donations.

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A company has to understand the importance of stakeholders other than its customers, suppliers and channel partners. A company's very existence as a business entity will be in jeopardy if these stakeholders do not have positive perceptions of the company. For instance, it will not be allowed to set up its factories and offices if it has antagonized the community in which the business is to be set up. Public and banks would not finance its operation if it lacks credibility. Aggrieved media and pressure groups can berate the company to the extent that its suppliers and other partners would not want to do business with it. All these stakeholders shape customers' opinion to some extent. In sum, a company would find it impossible to do business if its major stakeholders are aggrieved with it, even if the company has a very good product and marketing programme in place.

A company has to be deliberate in managing its relationship with its important stakeholders. It cannot assume that its good practices will ensure good public relations. It has to research the interests and expectations of various stakeholders and serve them. It will be fatal to equate public relations with good corporate communication. For maintaining good relationship with important stakeholders, the company has to first serve their interests and then communicate to them that their interests are being served in particular ways. Focusing exclusively on communications would make the whole exercise a gimmick and the stakeholders will see through the facade. Public relations is as real as any other marketing activity, i.e., it is based on achieving something substantial for the stakeholders.

Check Your Progress

1. What are two objectives every organization wants to achieve?
2. List two advantages of training?
3. How can a sales manager improve the performance of sales people?
4. What is the objective of total reward strategy?
5. State some of the public relations activities.

12.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Prosperity and growth are the two objectives which every organization wants to achieve.
2. The two advantages of training are as follows:
   - Training enhances an individual's skill levels.
   - Training provides an opportunity to develop one's latent potential.
3. A sales manager can improve the performance of salespeople by identifying the weak areas of performance of each salesperson and then providing incentives to improve performance in those areas. He assigns tasks to

individual salespeople in ways that allow them to capitalize on their strengths. He arranges training programmes to take care of their weaknesses.

4. The objective of the total reward strategy is to know the critical requirement of an organization's reward and compensation reward programmes so that they can effectively manage the human resource of the organization.
5. Public relation activities include publicity, corporate advertising, seminars, publications, lobbying and charitable donations.

12.6 SUMMARY

- Training is a crucial part of personnel management as it improves the competency of an organization.
- By ensuring that a skilled workforce is in place, an organization attempts to achieve its objective of growth and prosperity.
- Organizational growth can only occur when the skills of the workers are updated through regular training.
- Compensation is the remuneration received by an employee in return for his/her contribution to the organization. This organized practice not only balances the work-employee relation but also helps in providing motivation to the employees. Compensation is a significant part of human resource management that improves organizational effectiveness by providing monetary and non-monetary benefits to the employees.
- Compensation systems are designed in line with the goals and objectives of an organization. The compensation can be in form of monetary benefits as well as non-monetary benefits such as perks, time off, etc.
- There are various methods to calculate compensation. Some of them are critical incidents method, weighted checklist, Paired comparison analysis, Management by Objectives (MBO), 360 degree performance appraisal and Behavioural Observation Scales.
- The compensation or benefits or extra pay given to an employee for his work is known as reward. It does not include money, but also includes good office, interpersonal relationship in the organization, and involvement in taking key decisions in an organization, bonus share, growth opportunity and many other types of compensations.
- Reward system is directly linked with employee performance. Reward plays the role of motivation. When an employee is rewarded by the organization, he gets more motivated and tries to work even better.
- A sales manager identifies the weak areas of performance of each salesperson and then provides incentives to improve performance in those areas—if a salesperson is weak in opening new accounts, he is provided incentive for each account that he opens.

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- Marketers focus on customers and distributors but the needs and interests of other stakeholders such as employees, shareholders, local community, media, government and pressure groups are also important. Marketers should always be mindful of their needs and interests as they go about making their strategic and day-to-day decisions.
- Public relations is the management of relationships and communication to establish goodwill and mutual understanding between an organization and its public. Public relations primarily focuses on markets, distribution channels and customers. By communicating to other groups, public relations create an environment in which it is easier to conduct marketing.

12.7 KEY WORDS

- **Public relations:** Public relations is the management of relationships and communication to establish goodwill and mutual understanding between an organization and its public.
- **Reward:** Reward is the compensation or benefits or extra pay which an employee gets from an organization for his or her work.
- **Succession planning:** Succession planning is a way of filling the vacancies and preparing staff for future requirements of the organization. Succession planning assesses the performance of an employee for a key position that needs to be filled and discusses their career goal accordingly.
- **Employee turnover rate:** It refers to the percentage of workers who leave an organization and are replaced by new employees.

12.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Define training.
2. What are the types of compensation offered to employees?
3. What is the role of a manager in the reward system?
4. How can a well-defined compensation plan benefit an organization?

Long-Answer Questions

1. Discuss the needs and objectives of training
2. Explain the various methods of compensation evaluation.

3. Evaluate the history of reward management and the challenges associated with it.
4. Discuss the qualitative and quantitative measures of performance of sales force.

12.9 FURTHER READINGS

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UNIT 13 MARKETING COMMUNICATION

NOTES

Structure

13.0 Introduction
13.1 Objectives
13.2 Communication: Meaning, Nature and Importance
13.3 Process and Elements of Communication
13.4 Barriers in Communication
13.5 Marketing Communication Mix Concept
13.5.1 Factors Affecting the Promotion or Communication Mix
13.5.2 Communication Mix Determination Process
13.6 Answers to Check Your Progress Questions
13.7 Summary
13.8 Key Words
13.9 Self Assessment Questions and Exercises
13.10 Further Readings

13.0 INTRODUCTION

In this unit, you will be given an overview of communication, which is an important skill needed in almost every sphere of our life. You will learn the definition of communication, the nature and importance of communication, and the various types of communication. You will also learn the importance of communication in organizations. Further on in the unit, the marketing communication mix concept will be delved into and the factors affecting the promotion or communication mix will be discussed. For marketing communication to succeed, the customer must be exposed to the advertisement and be knowledgeable enough to comprehend it. The nuances of the communication mix determination process will be discussed in detail.

13.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand the meaning, nature and importance of communication
- Discuss the process and elements of communication
- Examine the barriers in communication
- Evaluate the marketing communication mix concept
- Understand the factors affecting promotion or communication mix
- Examine the communication mix determination process

13.2 COMMUNICATION: MEANING, NATURE AND IMPORTANCE

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Effective communication is central to the success of any business organization. Communication is a pervasive activity which encompasses almost all facets of our lives. Much of our lives is spent communicating with each other be it at our work place or in our family life.

The term 'communication' is derived from the Latin word 'communis' which means common. Thus, communication involves rendering common ideas, opinions or information, that is, the sharing of ideas, opinions or information.

Communication is defined as the interchange of thought or information between two or more persons to bring about mutual understanding.

Robert Anderson has defined communication as the interchange of thoughts, opinions or information by speech writing or signs.

According to Louis, 'Communication is the sum of all things one person does when he wants to create understanding in the mind of another; it involves a systematic and continuous process of telling, listening and understanding.'

Keith Davis has defined communication as the transfer of information and understanding from one person to another person. It is a way of reaching others with facts, ideas, thoughts and values.

In the words of Peter Little, 'Communication is the process by which information is transmitted between individuals and/or organisations so that an understanding and response develops.'

W.H. Newman and C.F. Summer Jr have very simply defined communication as an exchange of facts, ideas, opinions or emotions by two or more persons.

When communication is referred to in organizational context, it is known as organizational communication. According to William Scott, 'Administrative communication is a process which involves the transmission and accurate replication of ideas ensured by feedback for the purpose of eliciting actions which will accomplish organisational goals.'

Characteristics of Communication

Based on the above definition there are certain characteristics of communication. These are:

(i) Communication involves at least two persons—the sender and the receiver.

(ii) It involves the transfer of ideas, facts, emotions, gestures, symbols and action from the sender to the receiver.

(iii) Understanding is an essential component of communication, that is, the ideas, opinions and emotions that are conveyed should be accurately replicated in the receivers' mind.

(iv) Communication may be intentional or unintentional.

(v) The purpose of communication is to elicit action, inform or to express a certain point of view.

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(vi) Communication is a two-way process, that is, a feedback from the receiver to the sender is an essential component of communication.

(vii) Communication is a dynamic process, that is, it grows and develops.

(viii) Communication is systemic, that is, every component of the process is affected by every other component. For example, if there is a fault in the telephone (channel of communication) it will affect the message received by the receiver.

Classification of Communication

Communication in an organization can be broadly classified into two types

- Formal communication
- Informal communication

This classification is based on channels of communication. The channel of communication refers to the path through which the information is transmitted.

Formal Communication

Formal communication refers to the official communication which follows the formal channel. Formal channels are the paths of communication that are institutionally determined, that is they are established by the organization. This communication follows the scalar chain of command.

Formal communication can be oral or written. Oral communication can take the form of interviews, meetings, presentations, and so on. Written communication can take the form of notes, memos, letters reports, and so on.

Formal communication can further be classified into the following:

- Downward communication
- Upward communication
- Horizontal or Lateral communication
- Diagonal communication

Advantages of formal communication

(i) It is systematic and ensures an orderly flow of ideas.

(ii) The source of communication can be easily located.

(iii) It provides support to authority of superior over subordinate.

(iv) It facilitates control.

Disadvantages of formal communication

(i) It is slow moving since it flows through the scalar chain of command

(ii) It is impersonal, i.e., personal warmth and involvement are lacking

(iii) Sometimes accurate information may be withheld due to likelihood of unfavourable effects or to avoid criticism.

Informal Communication

Informal communication refers to communication between individuals and groups, which does not follow the officially recognized channel. It is a result of social interaction among the various members of the organization. The transfer of information may be related to work or other matters and it cuts across official lines of communication.

The network or pathway of informal communication is called *grapevine***.** The untrue part of the grapevine is called rumour. The following are some of the characteristics of grapevine:

- In a grapevine, the flow of information takes place in all directions.
- Transmission of information is rapid because the chain of command is not followed.
- It is selective about people who receive the information.
- It extends beyond the formal hierarchy system.

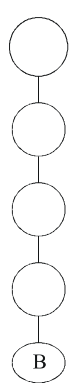
The grapevine may be of the following types:

(i) *Single strand chain:* In this, the individual passes on the information to another person who in turn passes it on to another person, and so on. It is the least accurate in passing information.

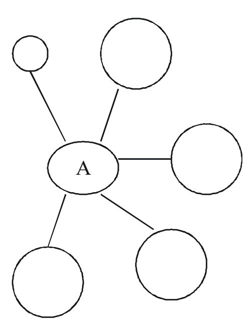
(ii) *Gossip chain:* The individual communicates with everyone non-selectively.

(iii) *Probability:* In this, the individual communicates randomly with others according to the law of probability.

(iv) *Cluster chain:* This is the most popular kind of grapevine. The individual communicates with only those people in whom he trusts.



Single strand chain



Gossip Chain

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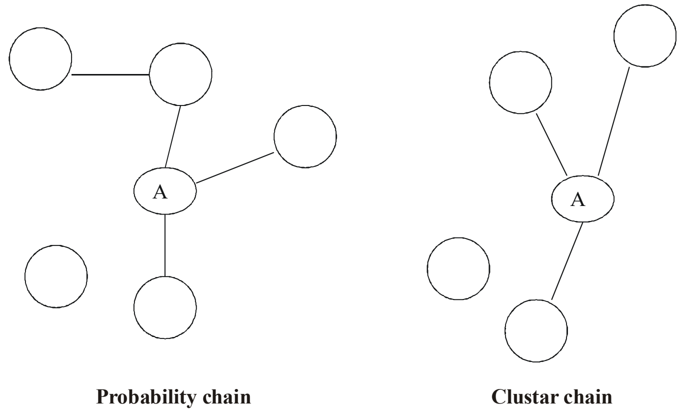


Fig. 13.1: Types of Grapevine

Advantages of informal communication

(i) It provides the opportunity to form social groups and communicate with each other.

(ii) Informal communication satisfies an important urge of people to know what is happening in other parts of the organization and be in the knowledge of the latest information.

(iii) It is very useful when information is required to be communicated very quickly.

(iv) It is easier for people to express their fears and apprehensions through the grapevine.

Disadvantages of Informal communication

(i) It does not carry complete information.

(ii) The information may be distorted.

(iii) Very often it is unreliable.

(iv) Confidential information often leaks out through the informal channel.

Importance of communication

Communication is the life blood of every organization**.** Managers communicate with subordinates to get work done. Subordinates seek clarifications and report to their superiors. Both formal and informal communication occur at all levels in the organization. With globalization and the breaking of boundaries between nations, the importance of communication has further increased. Increase in the size of organizations, technological advancement and increasing competition have all contributed to the importance of effective communication systems.

Communication can be internal, that is, information can be transmitted within the organization, or external, that is, information can be transmitted outside the organization. Both are equally important.

Importance of Internal Communication

Internal communication is communication within the organization. Internal communication integrates and coordinates all the managerial functions, i.e., it facilitates planning, organizing, staffing, directing and controlling. Internal communication is thus considered important for the following reasons.

(i) *It facilitates planning:* Effective communication systems facilitate both the establishment and the dissemination of objectives in an organization. It further helps in planning for the achievement of these objectives by collecting timely and accurate information. In fact, the success of planning is largely dependent on the quality of information on which it is based.

(ii) *Increasing complexity of business:* Businesses are becoming increasingly complex. Due to specialization, different functional areas like advertising, finance, sales, production, training and recruitment are handled by different departments. For the coordination of the various departments, effective communication is essential amongst them. For example, the planning department may have spent a month to work out the details of a new project, but it will all prove to be futile if the finances are not available to execute the project.

(iii) *Growth of businesses:* Organizations have a number of branches both within the country and abroad. Therefore, for healthy and even growth, an effective and efficient network of communication is required. This will facilitate effective information transfer amongst various branches and will also update information at the head office to facilitate planning and decision making.

(iv) *Promotes cooperation and understanding:* If there exists effective and smooth communication between the management and employees, it helps to bring about an atmosphere of mutual trust and confidence which is beneficial to both the parties. The management gets better returns as there is an increase in productivity. The employees get increased job satisfaction and also develop a sense of loyalty and belongingness towards the organization.

(v) *Helps in the decision-making process:* The decision-making process, like planning, is also based on the availability of information. If the right type of information is not available at the right time due to the lack of effective communication, the management will be unable to consider all the pros and cons before taking the decision. Effective communication results in high quality decision-making.

(vi) *Increases employee morale:* Communication in organizations is the basis of morale building. Through an effective communication system, the employees can bring their grievances to the management and get them redressed satisfactorily. It thus creates trust and ensures job satisfaction.

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Importance of External Communication

External communication refers to the communication of the organization with external agencies, both government and private. External agencies include government agencies and departments, distributors, retailers, individual customers and competitors. Business organizations are required to deal with licensing authorities, foreign trade offices, banks, custom offices, income and sales tax offices, transporters, and so on, which call for effective communication. Modern businesses are highly competitive and organizations which communicate better are undoubtedly more successful. External communication is thus considered important for the following reasons:

(i) *Contact with the external environment:* Organizations do not exist in isolation. It is important that they keep in touch with the external environment to follow the changes taking place and the effect they will have on the functioning of the business. Good communication networks will enable to anticipate changes and prepare accordingly.

(ii) *Improves ability to handle competition better:* This is an era of competition for businesses. Effective communication helps in handling information about competitors, their products, policies, and so on, to meet the challenges of competition. The right kind of information at the right time can thus help in handling competition better.

(iii) *Improves public relations:* Communication helps in building relationships with all stakeholders which include customers, suppliers, competitors, press, and so on. Good communication promotes goodwill amongst the various stakeholders

13.3 PROCESS AND ELEMENTS OF COMMUNICATION

Communication is the modus operandi of social and commercial intercourse. It is communication which gets the world going. It is the lifeblood of any group or organization. The communication process encompasses men, women and children as individuals and also members of a group, society, community or organization.

Communication is relevant not only to human beings, but also to other living beings. It is the most important link that connects all living organisms. Communication takes place not only among people, but also between people and animals and between animals. The dog owner, the horse rider, the ringmaster in the circus and the fortune-teller communicate with their animals and birds.

It is the ability of mankind to communicate across barriers and beyond boundaries that has ushered the progress of mankind. It is the ability of fostering speedy and effective communication around the world that has shrunk the world and made 'globalization' a reality. Communication has had a vital role to play in

ensuring that people belonging to a particular country or a cultural or linguistic group interact with and relate to people belonging to other countries or cultural and linguistic groups.

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Communication is at once the cause and consequence of a powerful world order. Development of varied and sophisticated means of communication over a period of time has brought human beings across the globe closer and has facilitated speedy and effective transmission of thoughts and ideas. The expanse or reach of communication, therefore, is worldwide and truly encompasses human life in all its facets and endeavours. It galvanizes action among individuals, organizations, societies and the world community at large.

Communication adds meaning to human life. It helps build relationships and fosters love and understanding. It enriches our knowledge of the universe and makes living worthwhile. Imagine life without various tools of communication—newspapers, books, letters, television and mobile telephone—and the expanse and significance of communication becomes crystal clear. Understanding the power of communication is imperative for the success of any human endeavour.

Need for Communication

Sociologists describe human beings as social animals. As members of society, they have to constantly interact with their fellow beings. They have feelings, emotions, likes and dislikes—all of which they have to convey. In other words, whatever the environment in which they are placed, they have to build links and establish relationships. The need for communication arises from their desire to express themselves in a meaningful manner. As stated earlier, communication is the modus operandi of social intercourse. As a member of the family, a social group and as part of a work-team, they need to communicate with others.

Just as they are social beings, human beings are also emotional beings. They have certain thoughts and emotions. Human heart generates feelings. Further, just as human beings are social beings and emotional beings, they are equally importantly rational beings. They are endowed with the faculty of thinking. They have intelligence and brainpower. The human mind is a very potent force. There is always a constant urge to give expression to what the mind generates. In order to give a meaningful expression to thoughts, ideas, reasoning, creativity and intelligence, human beings resort to communication.

The need for communication arises from the need to emote, to interact, and to express one's ideas and thoughts and the need to relate and connect. The need or the desire to communicate, however, varies from person to person, depending on time and context. There are times and occasions when a person is extremely communicative. There are also times and occasions when he or she prefers to remain silent. Be that as it may, most of our waking hours are spent in communication. Such communication may take place in several ways—listening, speaking, reading and writing.

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According to researchers, we spend 50–80 per cent of our waking hours in communicating. Of this,

- About 45 per cent is spent in listening
- About 30 per cent is spent in speaking
- About 15 per cent is spent in reading
- About 10 per cent is spent in writing

Fig. 13.2 Speaking with Figures

Evolution of Communication

The art of communication is as old as mankind itself. It is, in fact, older than the written word or even the spoken word. Human beings learnt to communicate much before they learnt to speak, read or write. That is why communication is not unique to human beings. Communication encompasses all living beings and pervades the animal world as well. Birds and animals also communicate. The sounds they make carry meaning. The chirping of the birds, the roaring of the lions, the hissing of the snakes and the whining of the dogs are often meant to be expressive.

Much before they learnt to speak, human beings had learnt to express themselves through sounds, gestures and actions. If we observe closely, we can notice that we continue to use these methods to communicate even to this day. It is not that those who cannot speak, read or write cannot communicate. A visually challenged person or an illiterate person, resorts to oral and non-verbal communication; a person with a speech or hearing disability resorts to gesticulations and lip reading.

The art of communication has evolved over the years. It goes back in time to the biblical era, mythological times and even to the prehistoric period. People learnt to express themselves even before they evolved fully into their present form. From sounds, grunts, actions, signs, gestures and gesticulations to the spoken word and thereafter to the world of reading, writing and modern and sophisticated methods of communication, it has been a long yet fascinating and rewarding journey through time. As they progressed on this fascinating journey, human beings learnt to interpret sounds, understand actions and use signs and gesticulations. Messages were conveyed through sounds, cries and drumbeats. The spoken word added a new dimension to the world of learning. Sages and saints of yore learnt to pass on sacred verses and holy texts through word of mouth. Thereafter, human beings learnt to use symbols and pictures to convey messages. Early writings were on stones and leaves. As human beings progressed, communication evolved further. The invention of printing, as we all know, revolutionized the process of communication. In terms of its reach, the written word signified a quantum leap. Side by side, various inventions made possible the recording of the spoken word and its transmission, irrespective of time and distance. Gradually, the emergence

of new media added new dimensions to the world of communication. Advancements in technology further enabled storage and retrieval of oral and written records in an effective, time-saving and cost-efficient manner.

Objectives of Communication

The objectives and functions of communication are inter-related. Communication could have many objectives depending upon the group and context. Communication within the family, in a classroom, theatre, church, war field, seminar or in the boardroom has different objectives. The objectives are defined depending upon the group and the purpose to be achieved. Each of these groups has a different set of goals and objectives.

Communication aims at subserving those goals. In each of these groups, the dominant objective of communication would be to inform, connect, educate, entertain, motivate, provoke, integrate, reassure and persuade, as the case may be. Communication is thus the means to an end. Communication is largely goal-oriented and the objective of any personal communication would depend upon the person or the group one is addressing and the purpose or object one has in mind.

Let us now look at the objectives of communication in business organizations. It is a process common to every business, whatever be its primary function. Business organizations exist for the purpose of meeting specific needs of the community in which they operate. Every business organization sets its goals and objectives in relation to the specific need it aims to fulfil. Every organization uses resources, including human resources to function effectively, and also targets specific clients and markets. Businesses are often associations of people coming together for specific purposes. It has people within and it also addresses people outside the organization. The activities of any organization require people within and outside to act, interact, reach, share, exchange and get across to each other so that the specific objectives are accomplished in an effective manner. The word 'business' connotes a commercial motive. As distinct from a charitable or religious organization, any business organization is driven by a profit motive. This implies that the organization would like to ensure that its objectives are achieved with the optimum utilization of resources like time, money and effort. The communication system that is put in place within the organization should, therefore, address and meet these objectives.

Since business organizations are multi-disciplinary in nature, communication encompasses wide areas and is inter-disciplinary in approach. Large organizations are described as networks of interdependent relationships. The objectives, activities and inter-relationships of a business organization necessitate communication to subserve its many diverse objectives.

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- Inform
- Educate
- Train
- Motivate
- Integrate
- Relate and Connect
- Promote
- Entertain
- Facilitate Decision Making

Fig. 13.3 Objectives of Communication

Let us discuss the objectives of business communication.

Inform

The first and foremost objective of any communication is to inform. In today's world, information is power. Communication brings power through information. The dissemination of information covers a wide range of areas, both internal and external. People within the organization have to be kept informed about the organizational goals, objectives, procedures, processes, systems, plans, priorities and strategies. The objective of ensuring effective external communication with customers, prospects, competitors, suppliers and the public about products, services, plans, happenings, events and achievements is equally important. The information needs within the organization take on different nomenclatures such as market-related information, product-related information, client-related information, employee information, executive information and management information.

Educate

Another objective of communication in an organization is to educate, i.e., to disseminate knowledge and develop skills and attitudes among the people working in the organization. There is also a need to familiarize them with the systems, procedures and processes. This process of education may extend to customers as well. This may be done through product literature, publicity, presentations and demonstrations.

Train

Communication is an integral component of any training program. Business organizations need to train people to achieve proficiency in specific skills. They have to provide working knowledge and attitudinal inputs through training programs to employees at various hierarchical levels. Training sessions involve teaching, instruction, demonstration, practice and discussion. The process of communication is integral to each of these.

Motivate

People in any business organization have to be motivated to pursue goals and achieve higher levels of performance. High levels of morale and motivation are a

must to ensure high levels of productivity and efficiency on a sustainable basis. Communication provides the means to keep the motivation levels high. Talks, lectures, films, meetings, workshops and non-verbal messages are among the means used to motivate people.

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Integrate

Large business organizations have different business units, departments and territorial divisions. Each of them pursues different goals, sub-goals and target sections. Communication provides the means for an integrated approach in pursuing organizational goals. Effective communication is a must to ensure that people working in different functional and geographical areas are integrated into well-knit teams that eschew working at cross-purposes and continue to achieve organizational goals as envisaged. Communication binds together people working for a common objective and helps team building.

Relate and Connect

Good business relationships are a must for the continued success of any business organization. It is communication that provides the means for building and nurturing mutually beneficial relationships. These relationships are both internal and external. They may be among and/or between employees, supervisory staff, top management, customers, suppliers, other players, press and other media. As part of the larger community, progressive organizations make it a point to relate themselves with the community at large. It demonstrates that they are a sharing and caring organization. All this is achieved through well-organized communication strategies.

Promote

Promotional efforts are a must for any organization to fully achieve its objectives. One of the Ps of marketing (the others being Product, Price and Placement), promotion relates to various activities such as advertising, publicity, public relations and communication, which aim at customer information, customer education, customer communication and customer retention. In the marketing concept, the customer is said to move from stage to stage till the transaction is completed. They move progressively from the state of awareness of the need for a product to the knowledge of the product and thereafter to a state of product preference. The needs of the customers develop into effective demand for products, resulting in the purchase of the product or availing of the service. Promotional aspects of the service are particularly relevant in a service industry like banking or insurance, where the product, i.e., the service, cannot be readily 'seen'. Financial service providers essentially sell benefits. For this, they have to organize effective promotional measures, which seek to inform, educate, persuade and actualize the clients/markets. Communication constitutes the basic plank on which promotional strategies are built.

Entertain

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Every business is not necessarily a serious business. Even serious businesses are not 'serious' all the time. Whatever may be the nature of business, there is a time for entertainment. Communication facilitates entertainment. It facilitates social bonding and brings in lighter moments that help in releasing tension, fostering camaraderie and getting rid of negative feelings. Humour, when used effectively, can play a vital role in fostering positive behaviour in business organizations. In the entertainment industry, communication has a much bigger role to play. Communication can serve to achieve the objective of purposeful entertainment.

Facilitate Decision Making

Decision making constitutes an important function for any business organization. Well thought out decisions, quickly taken, lead to better results. Such decision making is spread across all the functional areas such as personnel, marketing, accounts, production and maintenance. Day in and day out, people in organizations keep taking decisions at various hierarchical levels. People at higher levels in the organization command respect depending upon their decision-making abilities. Any such decision making, however, depends on the availability of adequate and timely inputs. It calls for facts, figures, analysis, deliberation, clarification, confirmation and evaluation. Communication—both oral and written—facilitates decision making in any business organization.

The objectives of communication, it must be emphasized, are dynamic and ever-changing. Depending upon the nature and functions of the organization, the range of people it deals with, and the sensitivities involved, the process of communication assumes new dimensions. In order to caution, counsel, persuade, clarify, elicit support, reprimand, organize, apprise, evaluate and achieve numerous other objectives, people in organizations resort to communication. Business organizations today function in an extremely dynamic context. Nothing ever remains the same for long. There are mergers and acquisitions, joint ventures, high employee turnover, low customer loyalty, move towards corporate governance, outsourcing, paperless offices and flexible work hours. All these developments have had their impact on the conventional methods of organizational communication.

Inasmuch as organizations themselves are adapting to changes in their operating environment and are facing new challenges, the contours of business communication will have to undergo a change. Communication systems, concepts and approaches will have to cope with new demands on business and there is a constant need to review the adequacy of existing methods and practices. Communication is essentially a support system for any business. With every change in the profile of business, the process of communication has to see refinements. Let us take an illustration. Till recently, a supervisor in an organization would consider having a 'long chat' with an employee whose productivity had declined or had started showing indifference to work. The typical scene has undergone a noteworthy

change. Today, there may not be much of an opportunity to have a long, focused person-to-person 'chat.' With flexible working, outsourcing and limitations of time, new approaches will have to be found. Although internet 'chatting' facility may be available in some places, the advantages of person-to-person verbal communication are certainly not there. Every new situation translates into a need for new approach to communication. To cope with new situations and emerging challenges in business, people associated with the process of communication will have to be necessarily creative and innovative.

The objectives of communication, both internal and external, thus cover multifarious facets of organizational functioning. Within the organization, it covers varied functions such as planning, directing, controlling, coordinating, reviewing, monitoring and staffing. It facilitates appropriate feedback so vital for decision making and relationship building. Marketing, selling, goal-setting, employee counselling, team-building, performance highlighting, image-building, morale-building and community orientation are all valid objectives which communication seeks to achieve in an organizational context. Communication supports every business function.

Process of Communication

Communication is a process that involves certain distinct steps. In its simpler form, it relates to stimulus and response. The stimulus arises from the communicator and the receiver responds. Communication is not complete till the message conveyed by the sender is properly understood by the receiver. Any communication process should necessarily have three elements. i.e., sender, receiver and the message.

Every communication has a distinct purpose, which determines the message. The stimulus emanates from the sender and the receiver comes up with the response. The objective in any business communication, as we have seen earlier, is to elicit the desired response. To be understood, however, is a necessary but not a sufficient condition in the organizational context. When the understanding results in the intended action, the objective of the communication is achieved.

The process of communication in an organization can be illustrated with the help of Figure 13.4. It brings out the following steps involved in the communication process:

Step 1 Message is initiated.

Step 2 Sender picks up the idea and encodes it for proper understanding.

Step 3 The encoded message is then transmitted through the chosen medium or channel.

Step 4 Receiver receives the message and decodes it.

Step 5 The decoded message is used or acted upon.

Step 6 As a final step, feedback on use or action is sent back to the sender.

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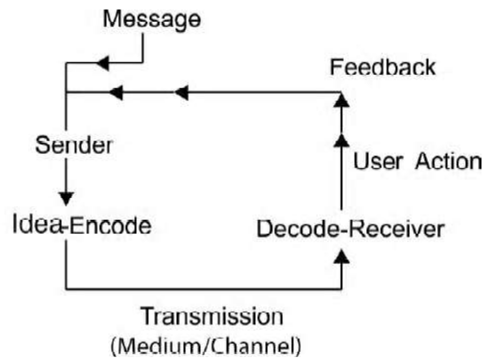


Fig. 13.4 The Process of Communication

Communication Relates to Stimulus and Response

The starting point of any communication is the existence of a message. The process of communication starts with a purpose. There is an underlying idea that has to be put across. This idea is developed into a message. The sender gives shape to the idea he wants to communicate.

The next step, as is evident from the chart, is the encoding of the idea. Encoding ensures that the idea or the message assumes a communicable form. Encoding would involve choosing the right words, expressions, phrases, charts and pictures in order to facilitate complete and clear expression of the idea. In doing so, the sender of the message should keep in mind the ability of the receiver to decode and comprehend the message.

The encoded message is now ready to travel. The journey or transmission is undertaken through a medium or channel. The sender of the message has to select the medium or the communication channel whether it is oral, written, visual, audio-visual, and electronic or a combination of any of these. Each of these offers various options. The choice of the medium would be influenced by factors like availability, cost, urgency and reliability.

The transmission is complete when the message reaches the receiver. The message has travelled from the sender to the receiver. Having received the message, it is now up to the receiver to respond as he pleases. If the receiver does not open the mailbox, ignores the letter, declines to take the call, refuses to view the audio-visual film or ignores the e-mail, the message gets lost, and the idea fails to reach its destination.

For the communication process to progress as intended, the receiver, on getting the message, should decode it. Decoding relates to reading, listening, viewing, understanding and interpretation of the message. Proper decoding is again a must for effective communication. It calls for earnestness on the part of the receiver. It depends on one's willingness to respond to the sender's efforts in sending the message. Even when one responds, understanding and interpretation of the message will be influenced by one's knowledge, attitude and perception. Communication is complete and effective only when the receiver correctly

comprehends the purpose of the message, uses it and acts upon it as envisaged by the sender.

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In the organizational context, in particular, the communication process moves a step further resulting in relevant feedback to the sender. The quality of feedback received from the target indicates the effectiveness of communication.

The process of communication is thus a progressive step-by-step movement. Both the sender and the receiver have a definite role to play in ensuring the success of communication. Their internal background, social status, hierarchical relationships, organizational climate, knowledge, skills and attitudes are among a host of factors that determine the effectiveness of communication. Added to that is the efficiency and reliability of the channels of communication chosen in the process. The choice of methods and channels should be such that they are capable of overcoming barriers, if any, to the process of communication.

13.4 BARRIERS IN COMMUNICATION

As we have seen earlier, communication is a process that covers six different steps involving, among others, encoding, decoding and transmission. For ensuring effective communication, all the parties and instruments will have to play their part as envisaged. At every stage of the communication process, however, there are barriers, which hinder or dilute the flow of communication. The barriers to communication in an organizational context may arise out of authority structure, status difference, reporting relationships, culture and background of individuals. The barriers to communication may arise out of behavioural differences, differences in skills and understanding as well as physical factors. While some kinds of barriers like behavioural differences and differences in skills may be commonly applicable to all methods of communication, barriers arising out of physical factors may be specific to the method of communication adopted. Some barriers, which are specific to the written communication, are handwriting, spellings and legibility. Similarly, barriers to oral communication would include absence of felicity of expression, accent, speed of delivery and appropriateness of the language.

Poor Expression

The power of expression of the communicator determines the quality of communication. To be effective, the message has to be properly developed from an idea. Barriers relating to expression result in poorly expressed messages. Lack of conceptual skills results in inadequate or incomplete shaping of the idea. Lack of clarity and ambiguity results from limited word power, improper organization of ideas and lack of coherence. If the words and thoughts are not organized properly, the communication would suffer for want of structural balance or a sense of proportion. Obviously, such poor expression of thoughts and ideas leads to incorrect, incomplete and incoherent messages. All this would result in avoidable errors and seeking of further clarifications, adding to costs and delays in

communication. Encoding and decoding require skill to ensure clarity and precision. Poor expression is likely to occur under the following circumstances:

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1. When a person is ill
2. When a person is fatigued
3. When a person is under severe stress
4. When a person is under the influence of alcohol

These are true for both oral and written communication.

Faulty Transmissions

The process of transmission, essential for any communication, is susceptible to errors of omission and commission. In the organizational context, the person transmitting the message may be different from the person who conceived the idea. The intent and purpose of the message may not remain the same as it moves from the originator to the transmitter. Not only that, the person transmitting the message may bring in his own bias, feelings and perceptions, which the originator of the message would not have intended. Or else, there may be occasions when the originator of the idea expects the transmitter to detail, illustrate and elucidate the idea, which the latter may fail to do.

Indifference and Lack of Interest

This is indeed a very strong barrier in the process of communication. Organizations have to make considerable effort to ensure that indifference to organizational communication is brought down to the minimum. Communication, to be effective, presupposes that the receiver of the message is also attentive or receptive. Attentive listening in oral communication, careful reading in written communication and keen observation in non-verbal communication are a must. Indifference or lack of interest on the part of the recipient, in turn, adversely impacts the enthusiasm of the communicator. When the students are not attentive, the teacher is likely to lose interest. On the other hand, when the speaker lacks expertise or credibility, the receptivity of the audience wanes. Indifference and lack of interest creates barriers to communication, as a result of which the quality of communication suffers. The intended message is either not received at all or is incomplete and, worse still, is understood incorrectly.

Noise

Noise is yet another barrier especially relevant to verbal communication. Noise disturbs the flow of communication. The recipient fails to receive the oral messages sent by the communicator, as a result of which the message gets diluted. While noise certainly affects oral communication, it may also affect written communication to the extent that the person writing a letter or a report may lose his concentration and consequently his flow of thoughts may suffer.

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Physical Factors

The process of communication, especially transmission of messages, makes use of numerous channels, instruments and gadgets such as telephone, microphone, projector, printing, photocopying, telex, fax, radio, film, cassette and of late, the floppy, compact disc and the pen drive. All these are very useful when they function smoothly. At the same time, they act as barriers when they fail to perform their functions efficiently. As a result, communication fails to reach the target audience. Snapping of telephone lines, non-availability of meeting rooms, failure of multimedia equipment and disturbances of power supply may lead to delays in transmitting the messages to the intended recipients.

People-related Factors

The process of communication essentially involves human beings. Like democracy, we may describe communication as of the people, for the people and by the people. Yet, people do not think, understand and interpret alike. In other words, meanings are in people. In any large organization, especially in multinational ones, there are differences among the employees in terms of language group, cultural background, rural-urban origin and hierarchical levels which in turn create psychological, linguistic and cultural barriers. Differences in hierarchical positions have their implications in terms of work structure, authority, status and relationship. In such situations, people may have bias, fear and reticence, which act as barriers to the free flow of communication. All these factors lead to different expectations among people within the organization, as to who should communicate with whom and in what manner. Apart from this, the organizational climate has its impact on communication. It is conducive when people are encouraged to speak out and there is free flow of communication. On the other hand, when the organizational climate is disturbed, and when dissenting voices are stifled, barriers emerge.

We have seen in the foregoing paragraphs that there are often numerous barriers to the free flow of communication. Such barriers disturb or dilute or hinder the process of communication. These barriers may be classified as physical, psychological, linguistic and cultural. It is worth emphasizing, however, that most barriers are surmountable. It is possible to anticipate, recognize and foresee the prevalence of barriers and take appropriate corrective action. With conscious efforts, it should be possible to overcome these barriers and ensure free flow of communication on an ongoing basis.

Check Your Progress

1. List two characteristics of communication.
2. What are the two types of communication process followed in an organisation?
3. What are the disadvantages of informal communication?
4. What are the different types of grapevine communication?

13.5 MARKETING COMMUNICATION MIX CONCEPT

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Most companies erroneously focus almost exclusively on advertising to convey their messages. But there are companies like Body Shop which have been able to build strong brands and garner large market shares without any advertising. They have used other methods of communications like publicity, sponsorship and word-of-mouth promotion to convey their brand ideas. The question is not whether a company should primarily rely on advertising or any or more of other communication methods like sales promotion, publicity, sponsorship, etc. The real issue is how a company can use all possible or some communication methods holistically so that it is able to convey ideas and messages that register in the minds of customers and make an impression. Most of the time, a prudent mix of communication methods will leave a more lasting impression in the customers' minds than any one method alone. A marketer's challenge is to devise the appropriate communication mix that will serve his purpose. Therefore, it becomes important to understand other methods of marketing communication besides advertising.

Purpose of communication in marketing

The task of communication is not to get one's ideas across to the other party. The real purpose of communication is to elicit the desired response from the target audience. Eloquence, sophistication and suave demeanour are pleasing to the communicator himself but serve absolutely no purpose in changing attitudes and behaviour of the target audience.

The target audience looks for conviction in the communicator. The target audience feels that if the communicator himself does not believe in the idea, he has no right to preach. The intent of the communicator is more important to the audience. The communicator should be focused on the interests of the target audience. However shoddily made an advertisement may be, or however clumsy may a speaker be, the audience will sit up and take note when they hear their interests being discussed. It is what an advertisement or a speaker says that matters to the audience and not really how he says it. Especially in situations where one individual talks to another individual or a group, the effectiveness of communication is directly dependent on the intent, knowledge and conviction of the communicator. Most reticent of men become verbose when they are knowledgeable and convinced about an idea.

The world of communication has for long been concentrating on polishing the medium of communication, like speech and advertisement, and somewhere down the line, ignored the content that the message was supposed to carry. The audience too has been impressed with the slickness of the ad and the eloquence of

the speaker but the message has not registered in their mind. The purpose of communication is to elicit the desired response from the target audience.

13.5.1 Factors Affecting the Promotion or Communication Mix

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Some of the factors that affect the communication mix in marketing are as follows:

- The type of product that is being marketed
- How the product is intended to be used
- The money available for marketing the product
- The market where the product is to be marketed
- The stage of the product life cycle
- The size of the market

13.5.2 Communication Mix Determination Process

Customers go through a complex chain of mental events from the time they see or hear an advertisement until they decide to make or not make a purchase. For marketing communication to succeed, two processes must take place in the customers' minds. First, what the customers saw, heard, learned, thought, or felt while being exposed to the advertisement must be processed and stored in memory. Second, this stored information in customers' minds must be retrieved at the crucial moment when a customer faces a purchase decision. For an advertisement to be successful, a customer must have the motivation, the ability and the opportunity to process and store the information in the advertisement and retrieve the information when is about to make a purchase decision. Therefore, the customer exposed to an advertisement must be interested in the advertisement, knowledgeable enough to understand it and free from distractions of other stimuli. Also, the mental processes must occur with sufficient intensity or effort and must be focused towards the advertised brand.

Since the chain of events that marketing communications must stimulate is so complex, a wide variety of communication methods have to be used. This means using the whole range of communication methods such as advertising, publicity, sponsorship and sales promotion. It may also mean using several advertising media or different avenues within one media. The idea is to get the message across to the customers in a forceful way so that they are able to process the message and store it. Relying on a single source is dangerous as the customer may just miss the message unless he is in a state of heightened awareness because he wants to make a purchase decision and is actively scouting for brands in the category that the advertised brand belongs to.

Companies that rely solely on television advertising face the problem of customers not being able to connect an advertisement with the brand it promotes. This particularly happens with advertisements that customers find engrossing. Since

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the intensity of customers' involvement in the advertisement is high, all their focus is on processing and storing the interesting set up, message or storyline in the advertisement and they miss the name of the advertised brand. Viewers often associate very popular advertisements with some other competitor brand of the same category. The company thus ends up promoting a rival brand. Viewers mistakenly attributed a popular advertisement for Eveready Energizer batteries to Duracell, Eveready's main competitor. In such situations, customers process and store the advertisement with sufficient intensity but in the wrong direction. A second communication method, if used, will set the direction right. So a packaging which uses the images of the advertisement, or a radio advertisement which uses the jingle, music, or the message of the television advertisement will help the customers retrieve the message and link it to the advertised brand.

Companies frequently use less expensive radio or print advertisement to reinforce expensive television advertising. The main vehicle is television advertising and hence the total campaign becomes expensive. But a reverse sequence can also achieve the same purpose. Television advertisements can be used to supplement radio or print advertisements. Since the staple promotion vehicle will be the less expensive, the total campaign cost would be lesser but the effectiveness would be same or even more.

Check Your Progress

5. What are the factors affecting communication mix in marketing?
6. What is the advantage of using radio or print advertisements?

13.6 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The two characteristics of communication process are as follows:
   (a) Communication involves at least two persons—the sender and the receiver.
   (b) It involves the transfer of ideas, facts, emotions, gestures, symbols and action from the sender to the receiver
2. Communication in an organization can be broadly classified into two types
   (a) Formal communication
   b. Informal communication
3. The disadvantages of informal communication are as follows:
   (a) It does not carry complete information.
   (b) The information may be distorted.

(c) Very often it is unreliable.

(d) Confidential information often leaks out through the informal channel.

4. The different types of grapevine communication are single strand chain, gossip chain, probability, and cluster chains.

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5. Some of the factors affecting communication mix in marketing are as follows:
   - The type of product that is being marketed
   - How the product is intended to be used
   - The money available for marketing the product
   - The market where the product is to be marketed
   - The stage of the product life cycle
   - The size of the market
6. Radio or print advertisement is less expensive in comparison to television advertisement. Since the staple promotion vehicle will be the less expensive, the total campaign cost would be lesser but the effectiveness would be same or even more.

13.7 SUMMARY

- An interchange of thought or information between two or more people to arrive at a mutual understanding is known as communication.
- Communication in an organization can be broadly classified into two types:
  - o Formal communication
  - o Informal communication
- Formal communication is also referred to as official communication as it follows the official channels of communication. The channels are institutionally determined, that is, they are established by the organization. This communication follows the scalar chain of command.
- Formal communication can further be classified into the following:
  - o Downward communication
  - o Upward communication
  - o Horizontal or Lateral communication
  - o Diagonal communication
- Informal communication refers to communication between individuals and groups, which does not follow the officially recognized channel. It is a result of social interaction among the various members of the organization.
- Both internal and external communication are extremely important for an organisation. While internal communication is communication within the

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organization, External communication refers to the communication of the organization with external agencies, both government and private

- The objective of business communication is to inform, train, educate, integrate, relate and connect, and motivate people, while at the same time promote the products, entertain people and facilitate decision making.
- In the beginning, a message is initiated, following which the sender encodes the idea for proper understanding. Thereafter, the encoded message is transmitted through chosen medium or channel. When the receiver receives the message, he/she decodes it. The decoded message is used or acted upon. As a final step, feedback on use or action is sent back to the sender.
- Some of the barriers affecting communication process are poor expression, faulty transmission, indifference and lack of interest, noise, physical factors, and people-related factors.
- Some of the factors that affect the communication mix in marketing are as follows:
  - o The type of product that is being marketed
  - o How the product is intended to be used
  - o The money available for marketing the product
  - o The market where the product is to be marketed
  - o The stage of the product life cycle
  - o The size of the market

13.8 KEY WORDS

- **Communication**: Communication refers to an interchange of thought or information between two or more people to arrive at a mutual understanding.
- **Grapevine communication**: It refers to communication between individuals and groups, which does not follow the officially recognized channel. The transfer of information may be related to work or other matters and it cuts across official lines of communication.
- **Formal communication:** It refers to the official communication which follows the formal channel. Formal channels of communication are institutionally determined, that is they are established by the organization. This communication follows the scalar chain of command.
- **Cluster chain:** Cluster chain is the most popular kind of grapevine wherein the individual communicates with only those people in whom he trusts.

13.9 SELF ASSESSMENT QUESTIONS AND EXERCISES

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Short-Answer Questions

1. Define communication.
2. What are the steps involved for effective communication?
3. Write a short note on grapevine communication.
4. What are the benefits of using internal communication?
5. Write a short note on communication mix determination process.

Long-Answer Questions

1. Discuss the objectives of business communication.
2. Examine the barriers in the communication process.
3. Explain the advantages and disadvantages of different types of communication.

13.10 FURTHER READINGS

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UNIT 14 TARGETING AND RECENT TRENDS IN MARKETING

Structure

14.0 Introduction
14.1 Objectives
14.2 Setting Up of Target, Policies, Strategies
14.3 Integrated Communication in Marketing
14.4 Recent Trends in Marketing
14.5 Answers to Check Your Progress Questions
14.6 Summary
14.7 Key Words
14.8 Self Assessment Questions and Exercises
14.9 Further Readings

14.0 INTRODUCTION

Target market selection is an important marketing decision as it helps the company decide which segments it will focus on. In this unit, the four marketing strategies will be discussed in detail to give an idea of the benefits and disadvantages of different marketing mix. The unit will also delve into the facets of marketing communication. Further on, the recent trends in marketing, which includes viral marketing, de-marketing, ambush marketing and guerrilla marketing, has also been discussed. Technological changes, integration and the need to focus on customer's requirement has given rise to new trends in marketing.

14.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand target marketing strategies
- Discuss about the nuances of integrated communication in marketing
- Elaborate on the recent trends in marketing

14.2 SETTING UP OF TARGET, POLICIES, STRATEGIES

The purpose of evaluating market segments is to choose one or more segments to enter. Target market selection is the choice of which and how many market segments the company will compete in. When selecting their target markets, companies have to make a choice of whether they are going to be focused on one or few

segments or going to cater to the mass market. The choice that companies make at this stage will determine their marketing mix and positioning plank. There are four generic target marketing strategies.

Undifferentiated marketing

There may be no strong differences in customer characteristics. Alternatively, the cost of developing a separate marketing mix for separate segments may outweigh the potential gains of meeting customer needs more exactly. Under these circumstances, a company will decide to develop a single marketing mix for the whole market. There is an absence of segmentation. This strategy can occur by default. Companies which lack a marketing orientation may practice this strategy because of lack of customer knowledge. It is convenient since a single product has to be developed. A company using an undifferentiated targeting strategy essentially adopts a mass-market philosophy. It views the market as one big market with no individual segments. The company uses one marketing mix for the entire market. The company assumes that individual customers have similar needs that can be met with a common marketing mix.

The first company in an industry normally uses an undifferentiated targeting strategy. There is no competition at this stage and the company does not feel the need to tailor marketing mixes to the needs of the market segments. Since there is no alternate offering, customers have to buy the pioneer's product. Ford's Model T is a classic example of an undifferentiated targeting strategy. Companies marketing commodity products like sugar also follow this strategy. Companies following undifferentiated targeting strategies save on production and marketing costs. Since only one product is produced, the company achieves economies of mass production. Marketing costs are also lower as only one product has to be promoted and there is a single channel of distribution.

But undifferentiated targeting strategy is hardly ever a well-considered strategy. Companies adopting this strategy have either been blissfully ignorant about differences among customers or have been arrogant enough to believe that their product will live up to the expectations of all customers, till focused competitors invade the market with more appropriate products for different segments. Therefore, companies following this strategy will be susceptible to incursions from competitors who design their marketing mixes specifically for smaller segments.

Finding out that customers have diverse needs that can only be met by products with different characteristics means that managers have to develop new products, design new promotional campaigns and develop new distribution channels. Moving into new segments means that salespeople have to start prospecting for new customers.

Differentiated marketing or multi-segment targeting

When market segmentation reveals several potential target segments that the company can serve profitably, specific marketing mixes can be developed to appeal

to all or some of the segments. A differentiated marketing strategy exploits the differences between marketing segments by designing a specific marketing mix for each segment. A company following multi-segment targeting strategy serves two or more well-defined segments and develops a distinct marketing mix for each one of them. Separate brands are developed to serve each of the segments. It is the most sought after target market strategy because it has the potential to generate sales volume, higher profits, larger market share and economies of scale in manufacturing and marketing. However, the strategy involves greater product design, production, promotion, inventory, marketing research and management costs. Another potential cost is cannibalization, which occurs when sales of a new product cuts into sales of a firm's existing products. Before deciding to use this strategy, a company should compare the benefits and costs of multi-segment targeting to those of undifferentiated and concentrated targeting.

The car market is most clearly segmented. There are segments for small cars, luxury cars, sports utility vehicles, etc. Most car makers like General Motors, Ford, Toyota, Honda and others offer cars for all the segments. Though Toyota entered the US market with small cars, it eventually chose to operate in most of the segments.

Focus or concentrated targeting

Several segments may be identified but a company may not serve all of them. Some may be unattractive or out of line with the company's business strengths. A company may target just one segment with a single marketing mix. It understands the needs and motives of the segment's customers and designs a specialized marketing mix. Companies have discovered that concentrating resources and meeting the needs of a narrowly defined market segment is more profitable than spreading resources over several different segments. Starbucks became successful by focusing exclusively on customers who wanted gourmet coffee products.

The strategy is suited for companies with limited resources as these resources may be too stretched if it competes in many segments. Focused marketing allows R&D expenditure to be concentrated in meeting needs of one set of customers and managerial activities are devoted to understanding and catering to their needs. Large organizations might not be interested in serving the needs of one segment as their energies might be dissipated across the whole market. In this way, they will not be able to pay insufficient attention to the requirements of this small segment. One danger that such niche marketers face is attracting competition from larger organizations in the industry if they are very successful.

Companies following concentrated targeting strategies are obviously putting all their eggs in one basket. If their chosen segments were to become unprofitable or shrink in size, the companies will be in a problem. Such companies also face problems when they want to move to some other segments, especially when they

have been serving a segment for a long time. They become so strongly associated with serving a segment with a particular type of product or service that the customers of other segments find it very difficult to associate with them. They believe that the company can serve only that particular segment. Companies which start with concentrated targeting strategy but nurse ambitions to serve more segments should make early and periodic forays into other segments. The idea is to avoid being labelled as the company which exclusively serves a particular segment. The association with one particular segment should not be allowed to become so strong that customers cannot imagine the company doing something else.

Mercedes offers premium cars for the upper segment of the market only. It does not offer cars for the middle and lower segments. But Mercedes segments the premium segment and offers different cars for its different premium segments.

Some companies are focused in another way. They focus on heavy users— the small percentage of customers that account for large share of a product's sale. The problem with such a strategy is that all the major players would be targeting this segment, and hence serving this segment will involve high marketing expenditure, price cutting and low profitability. A more sensible strategy is to target a small, less attractive segment rather than choose the same segment that every company is after.

Customized marketing

In some markets, the requirements of individual customers are unique. The purchasing power is sufficient to make designing a separate marketing mix for each customer a viable option. Many service providers such as advertising, marketing research firms, architects and solicitors vary their offerings on a customer to customer basis. They will discuss the requirements face to face with each customer and tailor their services accordingly. Customized marketing is also found within organizational markets because of high value of orders and special needs of customers. Customized marketing is associated with close relationships between the supplier and customer because the high value of an order justifies large marketing and sales efforts being focused on each buyer.

Check Your Progress

1. List the four target marketing strategies.
2. What are the disadvantages of undifferentiated marketing strategy?

14.3 INTEGRATED COMMUNICATION IN MARKETING

Integrated marketing communication is an approach used to achieve the objectives of a marketing campaign through a well-coordinated use of various promotional techniques. It is a strategic marketing process aimed at ensuring that all messaging

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and communication strategies are not only customer-centric but also uniform across all channels. IMC involves the weaving together of various marketing channels to develop creative marketing strategies as per the needs of the brand.

IMC: An Integral Part of Marketing

The main functions of Integrated Marketing Communication are (refer Figure 14.1):

- To inform
- To persuade
- To remind

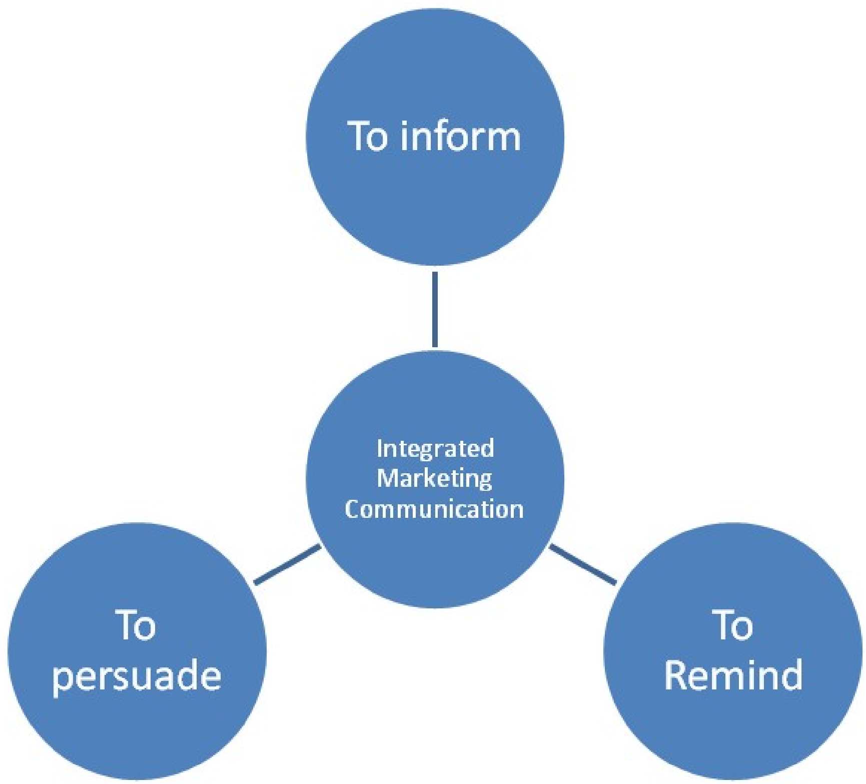


Fig. 14.1 Functions of Integrated Marketing Communication

IMC informs, persuades and reminds the target customers about the unique benefits of products and services that exist in the market. It involves the following processes (refer Figure 14.2):

(i) Planning

(ii) Executing

(iii) Controlling

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Fig. 14.2 Processes in Integrated Marketing Communication

IMC looks into the effective planning, execution, evaluation and control of the use of the various elements of the promotional mix so that there is a desired communication with target audiences. IMC helps generate awareness regarding the existing products. This results not only in inducing trial but also building long-term relationships not only with existing customers but also potential ones. Integrated marketing communication was an attempt to bring about consistency across marketing communication disciplines and the media. IMC strategies include the following (refer Figure 14.3):

- Determination of target audience
- Establishment of objectives
- Setting of budgets
- Analysis of social, competitive, cultural and technological issues
- Evaluation and feedback regarding the effectiveness of promotional strategies adopted



Fig. 14.3 IMC Strategies

IMC aims to get across a message that is consistent and unified using various channels possessing more chances of drawing the attention of the customers in this highly competitive and commercialized world. Integrated communication mix comprises:

- Publicity
- Personal selling
- Media advertising
- Public relations
- Sales promotions

IMC conveys information on all the elements of the marketing mix:

- Product
- Price
- Place
- Promotion
- Process
- People
- Physical evidence

Integrated Marketing Communication has become an important part of the marketing process and marketing communication. Products and services are marketed so that consumers may be aware of their existence and decide to buy them. This is why IMC has assumed importance in building relationship with existing and potential customers.

Check Your Progress

3. List the processes involved in IMC.
4. What does the integrated communication mix consist of?
5. What information does IMC convey?

14.4 RECENT TRENDS IN MARKETING

The world is changing every minute, every second. Change has taken over the field of marketing too. New methods of marketing, that is, online marketing and e-marketing have evolved. Some of this new trends have been discussed as follows:

Relationship marketing

One-to-one marketing involves gearing the organization to deal with valuable customers on an individual basis. This is not unattainable but the effort should be

worth the benefits that accrue. One-to-one or relationship marketing means being able and willing to change one's behaviour towards individual customers based on what the customer tells the company and what the company knows about that customer.

Relationship marketing establishes a learning relationship with every customer, beginning with the most valuable ones. The customer tells the company of some need and the company customizes its product to meet it. Every modification and communication increases the company's ability to fit the product to this specific customer.

There are four important steps for implementing one-to-one marketing. These are as follows:

(i) **Identifying the customers:** The company must be able to locate and contact a fair number or at least a substantial portion of its customers directly. It is critical to know customers in as much detail as possible. The information should contain not only names and addressable characteristics but their habits, preferences, etc. A snapshot information is not enough.

(ii) **Differentiating the customers:** Customers are different in two ways. They represent different levels of value to the company and they have different needs. Once each customer's needs and value are found out, it is possible to tailor the company's behaviour to each customer in order to reflect the customer's value and needs.

(iii) **Interacting with customers:** It is important to be both cost-efficient and effective when the company is interacting with its customers. Cost-efficiency improves by directing customer interaction towards more automated channels. Providing information on its website would be more economical than supporting a call centre. Effectiveness improves by generating timely, relevant information which provides either better insight into a customer's needs or a more accurate picture of customer's value to the company.

(iv) **Customizing the company's behaviour:** Ultimately, to lock a customer into a learning relationship, a company must be able to adapt some aspect of its behaviour to meet that customer's individually expressed needs. This might mean mass-customizing a manufactured product, or it could involve tailoring some aspect of the service surrounding a product – perhaps the way the invoice is made or how the product is packaged. It is tempting for a company to overlook this critical step as it involves investment to make the operations of the company flexible and responsive. However, one-to-one marketing will not cut much ice with customers if the activities and processes of the company cannot be customized to each customer.

Making the operations responsive and flexible, and assigning responsibility for maintaining customer relationships across divisions can be a daunting task. However, the benefits emanating from successful implementation of relationship

marketing should justify investment of time and money in the endeavour. One-to-one marketing increases cross-selling as the customer's requirements are known more intimately. It reduces customer attrition as the company learns of increasingly more sophisticated and effective ways to serve the customer's evolving needs. It reduces transaction costs as the customer's requirements are known and can be promptly served, and it leads to a higher level of customer satisfaction as the company's total offering is tailored to the customer's needs much better.

Social Marketing

Social marketing is the systematic application of marketing, along with other concepts and techniques, to achieve specific behavioural goals for a social good. Social marketing can be applied to promote merit goods, or to make a society avoid demerit goods and thus promote society's well-being as a whole. Examples of social marketing include the use of campaigns to encourage people to use seat belts, follow speed limits, or to not smoke in public.

Although social marketing is sometimes seen only as using standard commercial marketing practices to achieve non-commercial goals, this is an oversimplification. The primary aim of social marketing is 'social good', while in 'commercial marketing' the aim is primarily financial. This does not mean that commercial marketers cannot contribute to achievement of social good. Social marketing should not be confused with the societal marketing concept which was a forerunner of sustainable marketing in integrating issues of social responsibility into commercial marketing strategies. In contrast to that, social marketing uses commercial marketing theories, tools and techniques to social issues.

Social marketing applies a customer oriented approach and uses the concepts and tools used by commercial marketers in pursuit of social goals like anti-smoking campaigns or fund raising for NGOs.

Online marketing or Internet marketing

The term 'Internet marketing' is interchangeably used for Web marketing, e-marketing, Internet advertising or online marketing. The wide availability of the World Wide Web allows businessmen across the world access to millions of potential customers. All that is required is a few clicks of the mouse. Thanks to the Internet, your products and services can be viewed or read about by many people in different parts of the world at the same time.

Services of professional web marketers are available these days who ensure that potential customers not only visit the site, but also become regular customers. Once you subscribe to such services, they help to market your product through various facilities such as the Mall Linking Service. This enables the client's site to get linked to the Internet connection of numerous other online shopping mall service providers. They log on to the sites provided and managed by these marketing specialists. They promote the website according to the nature and function of

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search engine movements. Marketing techniques such as Advanced Press release services, Click Exposure techniques and Advanced Search Engine facilities are used. Click exposure techniques function through direct targeted keyword advertising. Online marketing services target a chosen category for advertising using effective pop-under. This is qualitative, targeted and scalable website traffic which can help your business to grow very fast.

In the world of advertising, Internet marketing is one of the popular sources for promoting business, business products and services because of its ability to reach the target audience. An online shopping website is of course an advantage as the facility will then be open all year round and for twenty-four hours a day. Professional Internet marketers will ensure that your business or firm appears right on the top of the important search engines and directories. A part of the role of a professional Internet marketer is to make the website design user-friendly, optimize the search engine, optimize the structure of the website, optimize keyword, etc.

Electronic customer relationship management systems and management of digital customer data are also components of Internet marketing. It intermingles the technical and creative features of the Internet, which is, design, advertising, development and sales. Internet marketing involves much more than mere promotion or development of a website or a banner advertisement being placed on a website. Internet marketing that is effective is achievable through a comprehensive strategy. This strategy combines a firm's sales targets and business model with the function and look of its website. This way, it can focus on its target market through correct selection of the kind of design advertising and media.

The Internet does not suffer from any geographical constraints. It is a useful marketing tool and allows you to advertise your products and services online. It does not require you to be physically present with the customer for the sale to take place.

Before the Internet became popular, a businessman would have had to travel abroad in search of overseas clients and to finalize transactions. As a result, only the affluent businessmen or big companies could afford foreign travels. Now, even small-scale businessmen can attract foreign customers and interact with prospective clients without having to travel anywhere.

Unlike the traditional forms of marketing including print and audio/video media, the Internet offers an economical and cost-effective method of marketing. You can get business without bothering to participate in trade fairs or shows.

The Internet enables prospective buyers to go through the product catalogue/ gallery at any hour of the day or night according to their convenience.

For a company with diverse products, advertising on radio and television can be very constraining. The limitation is in terms of the time. In such situations, the Internet offers them freedom to display a wide range of products and give detailed descriptions and information related to rates, size, colours, etc.

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Increased sales and profits enable the website owner to recover the cost incurred on the maintenance of the website.

It often happens that certain markets are not tapped by a seller because he is not aware of it or is located far away from it. This drawback is taken care of by Internet marketing. As a result, new markets have been discovered.

Types of Internet Marketing

There are many types of Internet marketing. Some of these are discussed as follows:

- **Pay per click:** In this type of marketing, a certain amount is paid to the search engine by the website to ensure that the site is featured separately whenever keywords related to that particular sector or industry are typed in.
- **Search Engine Optimization (SEO):** This implies the making of a website more search engine-friendly. As a result, whenever a user types a search or a specific keyword, the resultant site containing the keyword or search item will show in the top search results. To attract potential customers, this kind of Internet marketing is perfectly suitable.
- **Internet auctions:** Online auctions are similar to the auctions that most of us have seen or are familiar with. Items are put up to be sold at a minimum price quoted by the seller. Those interested in buying start quoting the price they are willing to pay for them. The person who quotes the highest price is known as the highest bidder and he gets the item. A buyer can be from any part of the world in the case of online auctions.
- **Affiliate marketing:** When a firm engages other websites or firms to market their products, it is termed as affiliate marketing. These hired firms or websites are referred to as affiliates. They shoulder the responsibility of marketing the products of the firm that hired them. These affiliates may carry or display the company’s logos or banners on websites hosted by them. The visitors who click on these banners are automatically redirected to the sponsor company’s site. For this work, the affiliate receives a commission.
- **Banner advertising:** This kind of advertising involves the displaying of banners of the advertisers on the website. Displaying the banner on the website for a particular period of time involves a certain amount of money to be paid by the advertiser. The banners are designed to be visually attractive in order to get the customers’ attention. The website on which the banner has been displayed decides the kind of response it gets. However, it cannot be guaranteed that the banner will be viewed by the prospective customers.
- **Directory listings:** When websites are placed in particular categories in a directory, this service is termed as directory listings. This service can be chargeable or provided free of cost. Yellow Pages and Yahoo are examples of such directories where these listings can be done. Therefore, Internet marketing is a new age marketing which allows sellers with good prospects.

Internet marketing is cheaper than traditional marketing and allows even small-scale businesses to start.

- **Ethical e-mail marketing:** Several web applications allow website owners to maintain the databases of subscribers and also provide the facility of sending personalized newsletters within no time. Usually, marketing strategies are impersonal. Email marketing provides a chance to address the recipient personally. If e-mail marketing is handled tactfully, it can be utilized to appeal to the target audiences' emotions and obtain an optimistic reaction from them. Information about new products and launches, seminars, and information on service workshops can be conveyed to the subscribers with the help of e-mails.
- **Online news articles:** Online news articles complement SEO and online public relations. News helps spread consumer awareness and converts the reader into a prospective buyer. This will result in an increase in the brand value of e-business. Professional agencies help their clients/website owners to prepare news articles and upload on relevant sites and online news media.

Other Types of Marketing

In this section, we will discuss other types of marketing.

Viral marketing

Viral marketing is when a customer buys a certain product and is convinced to buy something else too in the process. When you visit a shop, for instance, to purchase a bed, the salesman will try to sell you matching sheets, cushions, pillows, mattresses, etc. Similarly, on the Internet, when people send e-mails, they unwittingly end up infecting the recipient of their mail with the ads appearing at the bottom of the message. This is called viral marketing.

Green marketing

A free society needs a high level of individual wealth and a clean environment. The private enterprise system has to develop the capability of providing the elements of an improved quality of life. Industries have to meet environmental demands and yet maintain their capacities to compete internationally. The demand for environmental improvement offers opportunities to nearly all types of companies to participate in this huge market. Properly developed, these markets will create economic growth which can pay for the environmental improvements.

There are two different types of opportunities. The first opportunity comes from the fact that the companies will not be allowed to pollute the environment. Companies will have to identify processes whose outputs are being released in the environment and hence polluting it. Companies have believed that to reduce the emissions or make them harmless before releasing into the environment is always going to cost more. But this is not the case. When companies use new technologies

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to carry out their emission-producing processes, they find that that the effectiveness and efficiency of the process is improved, in addition to reduction of emissions from them. Therefore, the company is able to recover the investments that it made in redesigning the process. The idea is that processes which cause polluting emissions are inherently ineffective and inefficient, and better processes should be designed using new technologies. Companies have to believe that investing in technologies that help them to reduce emissions makes business sense. Their processes become more efficient as well as effective and they reap the economic benefits of improved processes for all times to come.

The second opportunity will come to those companies that will develop the technologies which will enable companies to carry out their processes in environment-friendly ways. These companies will have to invest heavily in research and development. However, they can be assured of a huge success when they come up with technologies that reduce or eliminate polluting emissions from processes. Just imagine the payoff if a company were to invent an automobile engine that would not emit any polluting gas, or if a company invented technologies to make plastics which would be bio-degradable. There are numerous such opportunities waiting to be tapped.

Consumers have to play an important role if companies have to be made responsible for the preservation of the environment. They should stop buying products of companies which are polluting the environment. More importantly, they should be willing to pay an extra amount if a company is incurring extra costs in making the product with environment-friendly processes. They have to understand that if companies have to bear all the cost of preserving the environment, they will find ways to comply with laws, while continuing to pollute the environment.

NGOs also have a very important role to play. While they can be very strident and intimidating, their real role is to form partnerships with companies to protect the environment. Members of NGOs are very knowledgeable and resourceful in their areas of concern, and if companies and NGOs start cooperating instead of being at loggerheads, real progress can be made. NGOs should progress from being mere watchdogs to becoming partners in the efforts to save the environment. They should carry out research and tell companies how they can make their process more environment-friendly.

We all owe it to the environment. All of us draw resources from the environment which we cannot get from anywhere else, however willing we may be to pay for them. There are no man-made sources from which we can get those resources. We are nowhere near to making our own air and water. Preserving the environment is vital for our own preservation.

Green Marketing and Competitiveness

Companies erroneously believe that their competitiveness will be eroded if their practices and products become more environment friendly. Sustainable innovation

and marketing is the key to future profitability and companies need to adopt the following practices:

• Companies want to adhere to the lowest environment standards, but they should choose to comply with the most stringent standards, and should do so before they become legally binding. Companies which do so get more time to experiment with materials, technologies and processes. For example, Hewlett-Packard realized in the 90s that the government would eventually ban lead solders because lead is toxic. It experimented with alternative materials and finally came up with solders that are an amalgam of tin, silver and copper. Companies that comply with the most stringent standards do not have to manage separate processes for different markets. For example, Cisco enforces a single norm at all its manufacturing facilities, and hence does not have to bother about norms of each country in which its manufacturing facilities are located.

Smart companies reduce the consumption of non-renewable resources such as coal, petroleum and natural gas as well as renewable resources such as water and wood. The company works with suppliers to develop eco-friendly raw materials and components. They provide incentives to their suppliers to make them more environment-conscious. For example, Cargill is working with farmers to develop sustainable practices in the cultivation of palm oil, soybeans and cacao. Some companies order their suppliers to become more environment-friendly. For example, Walmart has asked its Chinese suppliers to cut packaging costs by 5 per cent. It is also important that companies identify the sources of waste in their supply chains. For example, a company discovered that its vendors consume 70 per cent of the energy, water and other resources used by the supply chain. Smart companies make operational improvements that lead to greater energy efficiency and reduce their reliance on fossil fuel. For example, FedEx uses hybrid vans that are more fuel efficient than conventional vans. Some companies try to reuse returned products instead of scrapping them. For example, Cisco identified internal customers for its returned products and even set up a business unit for recycling returned products. Some companies are encouraging their employees to work from home, which reduces energy use. For example, of IBM's 320,000 employees, 25 per cent telecommute.

- To design eco-friendly products, companies examine product life cycles and understand consumer concerns. For example, Clorox discovered that household cleaning was an environmental concern and launched a line of non-synthetic cleaning products. It then persuaded a leading environmental group to endorse its products.
- Companies come up with new business models to deliver the same value to the customer. Developing a new business model requires a company to explore alternate ways of meeting customer needs. For example, FedEx electronically transfers a document to its office in the city, to which the document is to be delivered. The office takes a printout of the document and delivers it to the customer.

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- Companies have to think about making possible what currently seems impossible, for instance, developing waterless detergents. The biggest innovations have had their roots in such thinking. Airplanes could not have been created if someone had not thought of flying like a bird.
- Organisms have flourished on the Earth's biosphere for billions of years. It is an excellent operating system; its practices must be adopted by companies that want to practice sustainable manufacturing.
- Nature has more than 100 elements, but it has used only four elements namely carbon, hydrogen, oxygen and nitrogen to create organisms. Companies should adopt nature's way, and instead of using large number of materials, they should use only a few of them, which will also make recycling easy.
- Earth's biosphere follows the practice of up-cycling, i.e., when an organism dies, it recollects its dead remains, brings it back in its production process and enables creation of a higher form of organism. For example, a dead rat can be recreated as a cat. Up-cycling does not allow value of materials to deteriorate. Its performance is maintained and often enhanced. Companies too can follow the practice of up- cycling. So, when a product's life cycle is over, it can be recycled to a more valuable product.
- Nature's original design of life is the multi-celled organism, which came into being more than 3 billion years ago. The multi-celled organism is a general purpose design, and all organisms have been derived from this design. Similarly, companies can leverage general purpose platforms, the way Microsoft leverages Windows.

Telemarketing

Telemarketing is a process where telecommunication and information technologies are used to get in touch with customers and conduct sales activities and marketing.

Roles of Telemarketing

Telemarketing is very versatile. It can be used in a number of roles. Some of them are as follows:

- **Direct selling:** When the sales potential of a customer does not warrant a face to face call from a salesperson, telemarketing is used to service the account. Outbound telephone calls may simply take the form of an enquiry about a reordering possibility and may not require complex sales arguments that need face to face interaction. Inbound telephone call is used for placing an order in response to a direct mail or an advertising campaign.
- **Support of the sales personnel:** A telemarketing operation can support the salesforce by providing a communication link or an enquiry or an order handling function. Customers are aware whom to contact in the company in case they face any problem, want to ask some question or place an order.

- **Generation and screening of leads:** Telemarketing of the outbound nature can help in forming contacts with potential target clients and thus salespersons can be arranged for generating leads. Outbound telemarketing can also help in the screening of leads generated via advertisements and direct marketing.
- **Building and updating marketing database:** A directory can be used as a secondary source to offer information of the companies that partially fulfil the criteria for inclusion in the database. Updating of lists may require telephone calls.

Application of Telemarketing

Telemarketing is cost-effective, simpler, quicker and responsible form of marketing. Telephone permits a two-way dialogue that is instantaneous, personal and flexible. An organization may use telemarketing efforts as a supplement to other techniques of customer contact or it can use telemarketing as a main mode of making sales to customers.

- **Telemarketing linked to field selling activities:** The missionary seller who contacts customers initially and the order taker who takes order from customers can take help of telemarketers to do their job. Telemarketers can act as an organization's primary salesforce. Telemarketing can contribute to personal selling if it is routinized.
- **Supporting role to other promotional activities:** It may be necessary to sit face to face for a buyer and a seller to close a sale; however, telemarketing can play a role setting up selective interactions between a buyer and a seller. Some of the functions performed by telemarketers are development of the initial contact, order taking and reorders handling. The supporting role of telemarketers should be aligned in such a way that sales task is achieved at a minimum cost. Further, resistance from the salesforce should be anticipated when they ask about share commissions with telemarketers. If it is required to have face-to-face interaction between a buyer and a seller, the role of telemarketer becomes secondary.
- **Telemarketing in a primary role:** Telemarketing can provide sales and customer support effort for selling situations in which face to face contact is not required. Telemarketing is used in providing low-cost-incurred selling, selling of non-technical product and reaching a dispersed client base. A significant factor in deciding not to use salesforce to make face-to-face contact lies in the high cost of field sales call.
- **Telemarketing in primary as well as secondary roles:** Telemarketing can also play primary as well as supporting or secondary role in a company. The client base of such companies is widely scattered and have purchase choice ranging from a very low amount to a very high amount. Telemarketer plays a role of salesmen in the absence of salesmen.

- **No role:** There are certain conditions in which only face-to-face interaction is necessary. In such cases, personal contact becomes necessary and telemarketing plays no role.

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Guidelines for Telemarketing

Some general rules should be followed when a telemarketer contacts a customer.

- Introduce yourself and also the organization.
- Establish a good connection with the customer: This would be easy if the potential clients and their businesses have been well researched.
- Make an interesting comment.
- Deliver your sales message and highlight the good features of your product
- Overcome objections.
- Close the sale: If the situation is right and you feel the customer is convinced, pitch in with the words like, *'Would you like to place an order now?'*
- Arrange a sales call: Make arrangements for a sales call.
- Thank the customer.

Advantages of Telemarketing

Telemarketing has several advantages. Some of these are as follows:

- It costs lower per contact than a personal visit by a salesperson.
- It is more time efficient than a face-to-face visit. Therefore, it saves time of the customer as well as the company.
- Since toll free lines are used these days, it has diminished the cost of responding by the clients.
- Mobile phones enable contact with prospects anytime and anywhere. Messaging services can be used which are less expensive than telephone calls (for the company) and less intrusive for customers.
- Telephones help in two-way interaction between buyer and seller.
- Advanced technology of networks has made possible the quick and smooth transfer of calls between organizations.

Disadvantages of Telemarketing

Telemarketing has several disadvantages, which are discussed as follows:

- Face-to-face contact has a visual effect on the client and mood of the client can be judged easily. Since telemarketing does not involve any personal contact, this effect is lacking.
- Customers are more likely to reject an offer on phone than on the face. Therefore, it increases the rate of rejection.

- Some customers may find telephone calls disturbing.
- It is more cost consuming as compared to advertisements and direct mailing.
- It may incur high employee cost. However, some of this cost can be reduced by using computerized calls.

De-marketing

De-marketing is a strategy of reverse marketing in which a company discourages product demand in areas where they cannot realize a desired profit. Strategies for this include increased prices and reduced advertising in that area. The de-marketing phenomenon first attracted the attention of academic researchers in the 1970s. Kotler and Levy (1971) outline several possible reasons that firms would de-market their products. While 'General de-marketing' aims to shed excess demand, selective de-marketing helps a seller drop undesirable market segments. On the other hand, 'ostensible de-marketing creates a perception of limited supply to actually attract customers. Consistent with the notion of ostensible de-marketing, Cialdini (1985) suggests that humans have a psychological tendency to desire things that are less available. Amaldoss and Jain (2005) show that limited availability satisfies consumers' need for uniqueness, and Stock and Balachander (2005) demonstrate that scarcity can signal high quality.

Remarketing

Action taken on by companies to reintroduce a product or service to the market in response to declining sales is remarketing. The company remarkets the product as something that has been improved to reignite interest and hopefully improve sales. For example, a technology company may remarket its computer with new features to improve sales after a newer system has been introduced in the market. The success of remarketing depends on what aspects actually led to the shift in demand and how the company addresses it.

Guerilla Marketing

Guerrilla Marketing is known as an advertising strategy that emphases on low-cost unconventional marketing tactics that yield maximum results.

The original term was introduced by Jay Conrad Levinson in his 1984 book *'Guerrilla Advertising'*. The term guerrilla marketing was influenced by guerrilla warfare which is a form of irregular warfare and relates to the small tactic strategies used by armed civilians. These tactics include ambushes, sabotage, raids and elements of surprise. Just like guerrilla warfare, guerrilla marketing uses the same sort of tactics in the marketing industry.

Guerilla marketing relies heavily on unconventional marketing strategy, high energy and imagination. Guerrilla marketing is about taking the consumer by surprise, make an indelible impression and create copious amounts of social buzz. Guerrilla

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marketing is said to make a far more valuable impression with consumers in comparison to more traditional forms of advertising and marketing. This is due to the fact that most guerrilla marketing campaigns aim to strike the consumer at a more personal and memorable level.

Guerrilla marketing is often ideal for small businesses that need to reach a large audience without breaking the bank. It is also used by big companies in grassroots campaigns to compliment on-going mass media campaigns. Individuals have also adopted this marketing style as a way to find a job or more work.

Ambush Marketing

Ambush marketing, a term first introduced by marketing guru Jerry Welsh, has not really been rigorously defined. However, it broadly refers to a situation in which a company or product seeks to ride on the publicity value of a major event without having contributed to the financing of the event through sponsorship. It is typically targeted at major sporting events like the Olympic Games or the world cups in various games and is a strategy adopted by rivals of the official sponsors.

Check Your Progress

6. State two advantages of telemarketing.
7. Who coined the term 'ambush marketing'?
8. What is remarketing?

14.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The four marketing strategies are undifferentiated marketing, differentiated marketing, concentrated targeting and customized marketing.
2. Companies that practice undifferentiated marketing do not pay heed to the differences between customers and at times make the mistake of believing that their products will live up to the expectations of all customers. Therefore, this strategy makes the company susceptible to incursions from competitors who design their marketing mixes specifically for smaller segments.
3. Integrated marketing communication involves the following processes:
   (i) Planning
   (ii) Executing
   (iii) Controlling
4. The integrated communication mix comprises the following:
   (i) Publicity
   (ii) Personal selling

(iii) Media advertising
(iv) Public relations
(v) Sales promotion

5. Integrated marketing communication conveys information on all the elements of the marketing mix, that is:
   (i) Product
   (ii) Price
   (iii) Place
   (iv) Promotion
   (v) Process
   (vi) People
   (vii) Physical evidence
6. The two advantages of telemarketing are as follows:
   - It is more time efficient than a face-to-face visit. Therefore, it saves time of the customer as well as the company.
   - Since toll free lines are used these days, it has diminished the cost of responding by the clients.
7. The term 'ambush marketing' was first introduced by marketing guru Jerry Welsh.
8. Remarketing is the action taken by a company to reintroduce a product or service due to declining sales.

14.7 SUMMARY

- Target market selection involves deciding which and how many segments a company will compete in. The companies will have to decide whether they will focus on one segment or multiple segments.
- The four marketing strategies are undifferentiated marketing, differentiated marketing, concentrated targeting and customized marketing.
- While undifferentiated marketing involves developing of a single marketing mix for the whole market, differentiated marketing strategy designs a specific marketing mix for each segment. Concentrated targeting identifies several segments but does not serve all of them. On the other hand, customized marketing interact with customers face to face and tailors their services according to the needs of the customer.
- Integrated marketing communication is an approach used to achieve the objectives of a marketing campaign through a well-coordinated use of various promotional techniques.

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- IMC informs, persuades and reminds the target customers about the unique benefits of products and services that exist in the market
- One-to-one or relationship marketing means being able and willing to change one's behaviour towards individual customers based on what the customer tells the company and what else the company knows about that customer.
- Relationship marketing establishes a learning relationship with every customer, beginning with the most valuable ones. The customer tells the company of some need and the company customizes its product to meet it.
- Social marketing is the systematic application of marketing, along with other concepts and techniques, to achieve specific behavioural goals for a social good.
- The term 'Internet marketing' is interchangeably used for Web marketing, e-marketing, Internet advertising or online marketing. The wide availability of the World Wide Web allows businessmen across the world access to millions of potential customers.
- Viral marketing is when a customer buys a certain product and is convinced to buy something else too in the process. When you visit a shop, for instance, to purchase a bed, the salesman will try to sell you matching sheets, cushions, pillows, mattresses, etc.
- Telemarketing is a process where telecommunication and information technologies are used to get in touch with customers and conduct sales activities and marketing.
- Telemarketing is cost-effective, simpler, quicker and responsible form of marketing. Telephone permits a two-way dialogue that is instantaneous, personal and flexible.
- De-marketing is a strategy of reverse marketing in which a company discourages product demand in areas where they cannot realize a desired profit. Strategies for this include increased prices and reduced advertising in that area.
- Guerrilla Marketing is known as an advertising strategy that emphases on low-cost unconventional marketing tactics that yield maximum results.
- Ambush marketing, a term first introduced by marketing guru Jerry Welsh, has not really been rigorously defined. However, it broadly refers to a situation in which a company or product seeks to ride on the publicity value of a major event without having contributed to the financing of the event through sponsorship.

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14.7 KEY WORDS

- **Social marketing:** Social marketing refers to the systematic application of marketing and other concepts to achieve specific behavioural goals for the social good. The aim of social marketing is to promote merit goods and to dissuade people from demerit goods.
- **Telemarketing:** Telemarketing involves the process wherein sales activities and marketing is conducted by getting in touch with customers through telecommunication and information technology.
- **Search Engine Optimization:** Search Engine Optimization is the process of making the website more search engine- friendly. When the user searches for a specific keyword, the site containing the keyword will show up.
- **Guerilla marketing:** Guerilla marketing is an advertising strategy that emphases on low-cost unconventional marketing tactics which yields maximum results. This strategy takes the consumer by surprise, makes an indelible impression and create copious amounts of social buzz.
- **De-marketing:** De-marketing is a strategy of reverse marketing in which a company discourages product demand in certain areas where they cannot realize a desired profit. The company usually increases prices and reduces advertising in the area.

14.9 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the four important steps for implementation of one-to-one marketing?
2. Define the roles of telemarketing.
3. What are the different types of Internet marketing?
4. What do you mean by viral marketing?
5. What do you mean by ambush marketing?
6. Write a short note on de-marketing strategy.

Long-Answer Questions

1. Discuss telemarketing as a cost-effective and quicker means of marketing.
2. Explain integrated marketing communication.

3. Evaluate the contribution of green marketing in sustainable innovation and marketing.
4. Describe in detail the four target marketing strategies

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14.9 FURTHER READINGS

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